

Annual assessment of National Highways' performance - April 2025 to March 2026

Efficiency and finance

5.1 This chapter sets out National Highways' financial performance and how the company delivered against its efficiency key performance indicator (KPI), in the interim period (2025 to 2026).

Efficiency

5.2 For the 'Achieving efficient delivery' outcome area in the interim period the Department for Transport (Department) took a different approach to setting the efficiency KPI compared to previous road periods. National Highways was not required to meet a financial efficiency target but instead meet a commitment to demonstrate efficiency in its performance reporting to ORR.

5.3 Our assessment of National Highway's reported efficiency and supporting evidence is that it was sufficient to show it maintained a level of efficient delivery from the second road period.

5.4 Whilst National Highways met its efficiency commitment, in some areas it did not make the progress expected and this could affect its readiness to deliver efficiency in the third road period (RP3). The company's slow start with its concrete roads programme, large structures renewals and national programmes could put it behind with its efficiency plans for the third road investment strategy (RIS3).

5.5 Evidencing efficiency needs to evolve and improve as the company matures and the portfolio of work changes in the next road period. National Highways has made small improvements to its evidencing of efficiency in the interim period. However, it must go further in developing the

reporting framework to demonstrate efficiency in RIS3. In particular, we expect the company to give greater prominence to unit costs and activity metrics in evidencing efficiency improvements, and to reduce its reliance on case studies.

KPI: efficiency

5.6 Achieving efficiency is measured differently in the interim period to previous five year road periods which had an efficiency target expressed as a financial value. This is because step changes in efficiency are normally achieved over a longer period so government determined it would not be appropriate to set a KPI target for a single year.

5.7 The Interim Settlement required National Highways to demonstrate efficient delivery to ORR through its performance reporting and provision of evidence towards the Achieving Efficient Delivery KPI.

5.8 The efficiency reporting framework for the interim period draws on many of the principles from previous road periods. We have maintained the requirement to demonstrate efficiency by using different types of evidence to verify the reported performance. As before, National Highways has used activity metrics, outputs delivered for funding and efficiency initiative narratives as evidence of efficiency. In the interim period, we have moved away from a hierarchy of evidence types but, as the company has matured, improved data means activity metrics have greater emphasis for demonstrating efficient delivery.

National Highways' reported efficiency

5.9 National Highways' reported efficiency is summarised in Table 5.1. The company states that there has been strong and positive efficiency performance which demonstrates continuing efficient delivery. Each type of evidence is described further in the following sections covering our assessment of how well it demonstrates efficient delivery.

Table 5.1 Reported efficiency evidence by expenditure category

	Activity metric	Financial movement or funding	Output delivery	Digital Efficiency Register
Enhancements	£59 million	3.2% (£131 million)	Commitments delivered (Two open for traffic and two started works)	£22 million
Renewals	Cost reductions across asphalt pavement, steel vehicle restraint systems, bridge joints and drainage.	-2.8% (-£36 million)	Delivery within or above target ranges for seven out of eight asset classes.	£64 million
Maintenance	94.1% on time defect completion	4.2% (£10 million)	33.4% rise in rectified defects in year than the second road period	£75 million

	Activity metric	Financial movement or funding	Output delivery	Digital Efficiency Register
			average	
Business costs	Cost reductions for corporate offices	-3.7% (-£41 million)	Outputs or outcomes in line with the spend. Programme delays explain majority of the underspend.	£17 million
Designated funds and national programmes	N/A	-16.6% (- £15 million)	Outputs or outcomes in line with the spend. Programme delays explain majority of the underspend.	£27 million

ORR role in assessment of efficiency evidence

5.10 One of our primary functions as set out in legislation is to promote performance and efficiency. Therefore, it is important that we scrutinise the quality of evidence that National Highways provides to demonstrate efficient delivery and that it is delivering true savings for

taxpayers.

Assessment of efficiency evidence

5.11 The efficiency reporting and monitoring framework for the interim period differs from the equivalent in the second road period (RP2). We recognise the challenge for National Highways to demonstrate efficiency within a single year's settlement without a numerical target, and the work done by the company during the year to develop evidence in response to our challenge. Our assessment of efficiency evidence reflects the interim period framework and it is not possible to directly compare it with assessments in the two road periods.

5.12 Table 5.2 summarises National Highways' reported efficiency performance and ORR's assessment of the evidence supporting each category. As such, it combines both the extent to which the evidence shows efficient delivery and our assessment of the quality of the evidence. The equivalent table in the 2025 annual assessment only presented our assessment of the quality of the evidence as the quantum of efficiency being reported was captured by the numerical KPI target during RP2. More detail on our assessment of each category of efficiency evidence is in Table 5.2.

Table 5.2 Reported efficiency performance and assessment of efficiency evidence

Efficiency	Activity Metrics	Outputs and funding	Case studies
Enhancements	Good evidence	Adequate evidence	Good evidence
Renewals	Adequate evidence	Adequate evidence	Good evidence
Maintenance	Adequate evidence	Good evidence	Good evidence

Efficiency	Activity Metrics	Outputs and funding	Case studies
Business costs	Adequate evidence	Adequate evidence	Good evidence
Designated funds and national programmes	Not available	Adequate evidence	Good evidence

5.13 'Good evidence' indicates that the reported efficiency performance strongly demonstrated efficient delivery and the evidence was of a high quality. 'Adequate evidence' indicates the reported efficiency performance was lower, or the quality of evidence was sufficient but lower in quality.

ORR view of efficiency evidence: activity metrics

5.14 Activity metrics in the interim period are defined as outturn cost vs "should cost" for enhancements; reference road metric for renewals; reactive output analysis for maintenance.

5.15 To evidence enhancements efficiency for schemes in construction (representing 65% of expenditure on enhancements in the interim period), National Highways compared the schemes' forecast outturn costs with 'should cost' outturn estimates. The 'should cost' estimates are based on historic elemental unit costs of the scope (as delivered) for each scheme. The interim period activity metric is based on the proportion of costs for each scheme within 2025 to 2026. Whilst scheme cost forecasts have risen overall, the effect on the metric is relatively small as this was primarily on projects in early construction with limited spend in the interim period. Overall, the cost forecasts remain below the should-cost baselines for the interim period.

5.16 National Highways has developed 'reference road' renewals activity metrics for asphalt pavement, steel vehicle restraint systems (VRS), bridge joints and drainage. These metrics compare renewals costs on a like-for-like basis by taking into account the differences in the scope of renewals schemes that can vary from year to year. They indicate cost reductions but are based on a limited number of renewal schemes and therefore may not be representative of all works

completed. We expect the company to strengthen evidence on renewals activity metrics in RIS3 as it is developing a new approach which will allow the inclusion of more asset types and further improvements.

5.17 For maintenance activity metrics, National Highways has presented simple analysis showing a rise in the overall number of recorded defects accompanied by an improvement in the rectification rate across all defects, which exceeded the average performance achieved during RP2 and in the final year of RP2. The metric only covers reactive maintenance and does not relate the output to spend which was £10 million overspent overall. This is an area National Highways needs to improve its efficiency evidence in RP3.

5.18 National Highways has taken an activity metrics approach to demonstrate efficiency improvement in corporate office costs as part of business costs expenditure. This showed a 18.1% improvement in office cost per full time equivalent (FTE) compared to the final year of RP2. However corporate office costs represent a relatively small proportion of business costs expenditure. We welcome National Highways using activity metrics in this area for the first time and commitment to continue developing metrics. Where, as in this category of business costs, the scope of evidence from activity metrics is limited, the company should ensure there is a good breadth of evidence of achieving efficiency outputs for funding and case study descriptions of efficiency initiatives.

5.19 For designated funds and national programmes, the wide variety of activities means it is difficult to demonstrate efficiency using activity metrics. However, the company is intending to undertake a detailed review in RP3 to identify possible alignment with other unit cost work.

5.20 Overall, the activity metric evidence National Highways has provided to support its reported efficiency in the interim period is reasonable but limited in breadth. Whilst the enhancements evidence is strong, in other areas the coverage provided by activity metrics is limited. On renewals, the evidence shows good performance, but it covers only four asset classes and is based on relatively few schemes. National Highways will need to increase the proportion of its activity covered by activity metrics in RP3 if it is to be able to claim the level of efficiency it anticipates. This is particularly important for renewals given the growth in this capital programme for RIS3.

ORR view of efficiency evidence: outputs and financial movement or funding

5.21 'Outputs and funding evidence' means assessing outputs delivered against the agreed levels and comparing to the spend and budget within the period. During RP2, this was the primary

method for demonstrating efficiency improvements where they were 'embedded' into National Highways' plans. However, especially as there is no quantitative target for the interim period, there was not a specific level of embedded efficiency assumed to be associated with delivering committed outputs for planned funding in each area.

5.22 For enhancements this category of efficiency evidence is defined as the outturn forecast increase or decrease in cost from March 2025. For other expenditure categories it is the overspend or underspend against the interim period budget.

5.23 For enhancements, National Highways met its commitments to start work on two schemes and open two further schemes for traffic. However, the outturn cost of all schemes in construction during the interim period increased due to a variety of factors over which the company has some control, such as supplier performance and commercial negotiations, discussed further in the Enhancements and other capital programmes chapter. This approach purely measures change in cost so may reflect risks being realised or changes in scope that are not necessarily inefficient. This explains why the activity metric shows positive efficiency despite overall costs having increased during the interim period.

5.24 National Highways met its output target on seven out of eight key asset classes and underspent against its renewals budget, caused primarily by under-delivery of technology asset (messaging sign) renewals, delays in the M6 Lune Gorge large renewal scheme and the concrete road programme development. The company stated that some of the underspend was used to overdeliver on other asset types. However, it has only been able to partially demonstrate this, the type of interventions it undertook or if it was a reasonable approach. For example, it reported over-delivery of its renewal of vehicle restraint systems by 18% but cannot comprehensively show whether it carried out full renewals or do-minimum interventions.

5.25 National Highways has produced renewals analysis taking into account over and under delivery compared to the company's spend and budget. This shows that where it has underdelivered output its spend has reduced at least in line with the reduced output. Likewise, where it has overdelivered the spend has increased in line with (but not more than) the increase in output. A reduction in pavement renewal depth, from an adjusted RP2 baseline of 83.6mm to 80.9mm in the interim period, has also been included in this analysis and shows a commensurate reduction in spend.

5.26 However, this analysis does not control for potential differences in other types of output, such as full renewal or do minimum interventions on steel VRS renewals, or the potentially wide

difference in the unit cost of different technology asset renewals. Another limitation of this analysis is that, in renewal projects covering several asset types, the company assigns all costs to the predominant asset, which can distort asset-level cost allocations. In RP3 National Highways needs to use the proposed improvement in asset level reporting to address this issue through enhanced reporting of renewals unit costs and activity metrics to increase its coverage and control for more of the causes of variation in cost.

5.27 Maintenance overspent against its budget in the interim period due to higher than planned activity. There was also an increase of 15.9% in the total number of defects rectified in year compared to the final year of RP2 (a 33.4% increase on the RP2 average). In addition to higher volumes the company also had strong performance against required timescales with 92.7% of 24 hour priority defects completed on time (although this is lower than the 94.7% performance in the final year of RP2). It is important to note that the defects metric only covers reactive maintenance and so does not represent the full programme of maintenance activity, but it does show continued performance improvement in this specific area.

5.28 National Highways underspent on business costs. This was mostly caused by delays and changes to delivery plans across customer operations, traffic management and operations control. A number of systems and control related projects started later than expected or did not proceed in year, leading to a reprofiling of spend with an expected effect into RP3. A small proportion of the underspend was attributable to efficiencies generated by estates and digital services.

5.29 National Highways also underspent designated funds and national programmes. This was mostly due to delayed delivery of several programmes, with some limited efficiency mainly on LED lighting. Delayed activity will be carried over to RP3 which may lead to less efficient delivery. Further detail on designated funds delivery can be seen in the Enhancements and other capital programmes.

5.30 Overall, our analysis of National Highways reporting of spend and delivery has shown a varied picture of efficiency performance. Whilst for enhancements it provides reasonable evidence of efficiency, for renewals there is a less clear picture across renewals asset types in part due to limited coverage of spend and delivery within the reporting. For maintenance there was higher spend but with an inflation headwind and improved defect performance indicating efficient delivery. For business costs, designated funds and national programmes, delayed delivery has created underspends in the interim period but with an expected effect on efficiency in RP3.

5.31 The varied picture of evidence from reporting of spend and delivery supports the need for National Highways to continue to develop its efficiency evidence during RP3. The company will not be able to simply rely on delivering its committed outputs and spending within its funding to achieve the RIS3 efficiency target. We discuss this further in the section on preparing for RIS3.

ORR view of efficiency evidence: efficiency case studies.

5.32 Efficiency case studies in the interim period are defined as narrative evidence of initiatives that deliver efficiency. A total of £204 million of efficiency initiatives have been reported by the company through its 'digital efficiency register' (£12 million of which was enhancements carry over from RP2). The company developed case studies for ORR to review for the efficiencies that exceeded the agreed monetary value thresholds for reporting. These 18 case studies were distributed across all efficiency expenditure categories.

5.33 The category of efficiency with the largest value of reported case studies was maintenance, including utilising standardised planning techniques, bundling of cyclic works, single traffic management set ups, and improving crew utilisation. The company also generated case studies for a number of repeatable initiatives, that can be repeated across several projects with the value of efficiency expected to exceed the agreed thresholds. We sample tested a small number of repeatable efficiency claims for the interim period and reviewed the evidence held by National Highways, we found that the documentation supported the claimed efficiency values.

5.34 The business improvement and change programme (BICP) discussed further in the Enhancements and other capital programmes chapter delivered £13 million of efficiency on green claims.

5.35 National Highways has provided good case study evidence over the interim period. The company should continue with its approach in RP3, noting that we expect less reliance to be put on case studies as primary evidence as it develops its efficiency reporting during the road period.

Impact of inflation

5.36 National Highways' plans were based on inflation assumptions for the interim period. If outturn inflation is different from those assumptions, it will affect costs and it is important that this effect is separated from the analysis of efficiency. During RP1 and RP2, when there was a quantitative efficiency target, the impact of inflation was quantified as a headwind (if inflation was higher than assumed) or tailwind (if it was lower). This direct link does not apply during the

interim period, in the absence of a quantitative target, but it provides context to the analysis of outputs and funding.

5.37 National Highways reported that inflation was £32 million higher during the interim period than was assumed in its funding. The extent of this varied by expenditure category. The company had to manage this inflation headwind when delivering its maintenance, PFI costs, other capital and protocols.

Preparing for RIS3

5.38 Overall National Highways has been able to demonstrate efficient delivery during the interim period through the efficiency evidence it has presented to ORR. Our review of this evidence has shown areas where it is of good quality and other areas where the company needs to make further improvements.

5.39 Looking forward to RIS3, over half of National Highways' £1.4 billion RIS3 target is expected to be achieved through renewals. As such, RIS3 includes a requirement for the company to enhance its efficiency reporting and particularly in this area. We expect the company to give greater prominence to unit costs and activity metrics in evidencing efficiency improvements. In addition, the company needs to be clearer about the subcategories of assets being renewed, quality or intervention and spend. As this will take time to develop in the early part of RP3 we expect the company to set out its plans for enhancing efficiency reporting and to show sustained progress against those plans throughout the period.

5.40 BICP will be an important creator of efficiency in RP3. We expect the company to use the reporting from this programme to deliver improvements in its efficiency forecasting for RIS3 and demonstrate its readiness to deliver the efficiency challenge of RIS3. This is particularly key for the early years of RP3. It is also important that National Highways fully aligns and integrates the reporting of efficiencies generated through BICP with the wider development of its efficiency evidence during RP3.

5.41 We will work with National Highways to develop a programme of work to increase the coverage and quality of its efficiency reporting in 2026 to 2027 and throughout RP3.

Financial performance

5.42 National Highways received £4,842 million funding to deliver the interim settlement and an additional £21 million for activity specified outside the settlement, primarily for development activity on inward investment projects. The interim settlement funding was split £3,387 million for capital expenditure and £1,455 million for operational expenditure.

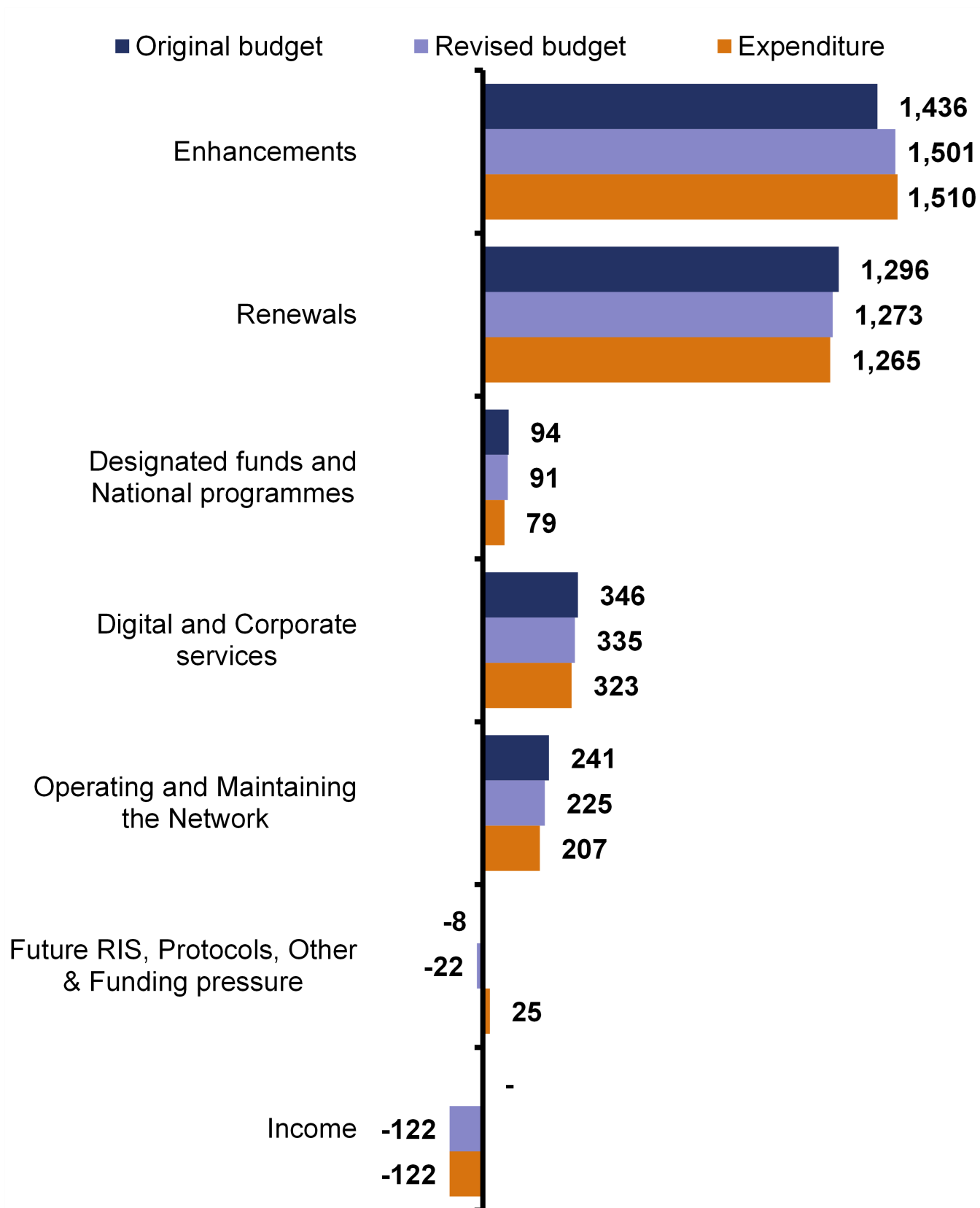
Budget and expenditure

5.43 In the interim period, National Highways' original budget (capital and resource) was £4,863 million which it revised down to £4,758 million in the autumn. This was the net result of a £122 million reduction in the capital budget, which was an adjustment to budgeted income for a long term lease with Welcome Break covering eight Motorway Service Areas and a £17 million increase in the resource budget to cover unfunded pressures.

5.44 National Highways underspent its revised resource budget of £1,475 million by £8 million and were subject to a £52 million income adjustment for a total reported underspend of £60 million (4%). The company spent £3,287 million against its revised capital budget of £3,283 million, an overspend of £4 million (0.1%). A breakdown of expenditure against budget is shown in in Figure 5.1 for capital spend and Figure 5.2 for resource spend.

Capital expenditure

Figure 5.1 Capital expenditure against original and revised budget, April 2025 to March 2026 (£ million rounded)



Enhancements

5.45 National Highways spent £1,510 million on enhancements (including inward investment projects) in the interim period. This is an overspend of £9 million against the revised budget of £1,501 million. The company started the year with £35 million of pressure against total capital funding, this increased to £50 million in the autumn. The capital pressure related almost entirely to enhancement activities.

5.46 There were a number of activities within enhancements both in and outside of National Highways' control that caused under and overspends that net to the final overspend position of £9 million. These include, overspends on Lower Thames Crossing due to recognition of lease costs, critical tunnel preparation works required and commencement of previously deferred activities. There were overspends on other schemes and programmes related to varying issues including supplier cost increases, delays, defect rectification and additional activities that had slipped from previous financial years.

5.47 These overspends were offset in part by delay to several schemes and the cancellation of the A12 Chelmsford to A120 widening and A47 Wansford to Sutton schemes.

5.48 Further detail on enhancements financial and delivery performance is reported in the Enhancements and other non-OMR programmes chapter.

Renewals

5.49 The company spent £1,265 million on renewals in the interim period, an underspend of £8 million (0.6%) against the revised budget of £1,273 million. Although this represents a relatively modest underspend delivery was varied across individual assets. The company missed its commitment for one of its eight key asset types, roadside technology signs.

5.50 Further detail on renewals financial and delivery performance, including large renewals, is reported in the Operations, maintenance and renewals chapter.

Designated funds and national programmes

5.51 National Highways underspent by £12 million (13%) against its revised budget for designated funds (DF) and national programmes (NP) of £91 million (this includes £5.6 million for small schemes delivered by major projects). Table 5.3 shows the original and revised budget and actual

spend in the interim period broken down by designated funds, national programmes and small schemes.

5.52 The underspend was caused primarily by the Environment NP and DF (£3.55 million and £2.23 million underspends respectively) and the Safety DF (£3.61 million underspend).

5.53 The Environment underspends were caused by a number of factors, including delivery delays, late identification of capacity constraints in year and deferral of work into subsequent periods.

5.54 The Safety underspend was caused by approximately £2 million efficiencies in delivery, and approximately £1 million unmaterialised risk in a single project.

Table 5.3 Designated funds, national programmes and small schemes breakdown

	Original Budget	Revised Budget	Actual Spend
Designated funds	£63.3 million	£63.4 million	£56.7 million
National programmes	£25.6 million	£21.8 million	£17.5 million
Small schemes	£5 million	£5.6 million	£4.7 million
Total	£93.9 million	£90.8 million	£78.9 million

5.55 Further discussion of DF and NP delivery can be seen in the Enhancements and other non-OMR programmes chapter.

Digital and corporate services

5.56 National Highways spent £323 million on digital and corporate services in the interim period. This is an underspend of £12 million (4%) against the revised budget of £335 million.

5.57 The underspend was mostly caused by slippage across the estates programme; a result of negotiations and an overly ambitious delivery schedule. There was also slippage in operations related to corporate carbon and some schemes being delivered at a lower cost than expected.

Operating and maintaining the network

5.58 National Highways spent £207 million on operating and maintaining the network in the interim period. This is an underspend of £18 million (8%) against the revised budget of £225 million.

5.59 The underspend was caused by a number of factors. These include delivery of electric vehicle charging infrastructure being delayed into RP3, savings on vehicles following confirmation that existing assets meet requirements and a milestone payment not incurred and deferral of the next phase on work on the National Traffic Information Service Transformation Programme.

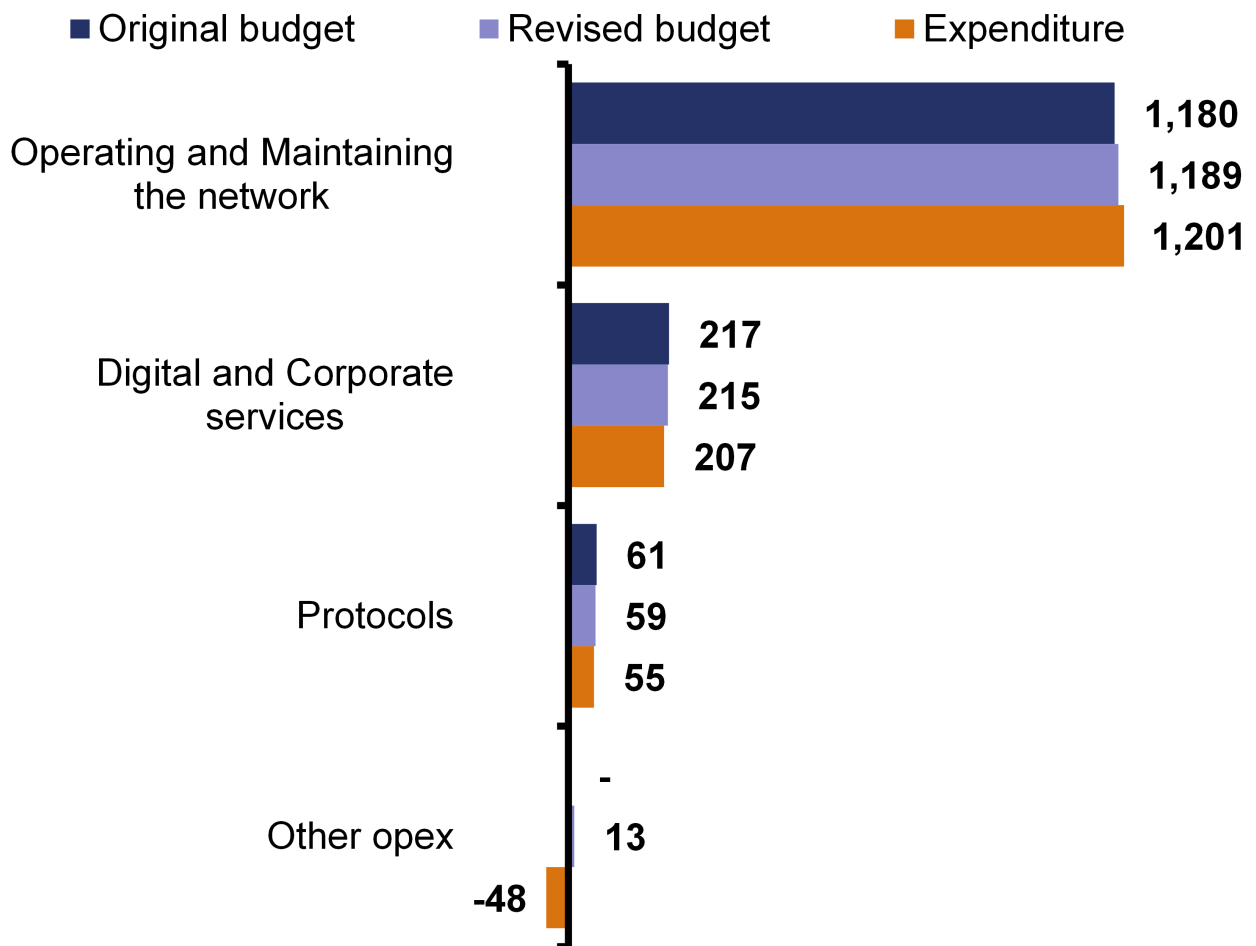
Protocols, future RIS, income and other

5.60 Other spend in year relates to several smaller categories where the under and overspends were relatively small, such as protocols, which spent £15 million against its £17 million revised budget and future RIS and scheme development, which spent £10 million against its £11 million revised budget.

5.61 The company also received £122 million of income related to a long term lease with Welcome Break covering eight Motorway Service Areas. When the revised capital budget was agreed in the autumn, the funding was reduced to account for this income leaving a zero variance at year end.

Resource expenditure

Figure 5.2 Resource expenditure against original and revised budget, April 2025 to March 2026 (£ million rounded)



Digital and corporate services

5.62 National Highways spent £207 million on digital and corporate services in the interim period. An underspend of £8 million against the revised budget of £215 million. The underspend against revised budget was caused by a £6 million contingency budget (included to manage pressures within constrained funding whilst holding directorates to tight allocations). This was used to offset energy pressures and there were further underspends from reprofiling of work and reduced spend on safety communication campaigns due to delays in obtaining Cabinet Office approval.

Operating and maintaining the network

5.63 National Highways spent £1,201 million on operating and maintaining the Network in the interim period. This is an overspend of £12 million against the revised budget of £1,189 million.

5.64 Further detail on operations and maintenance delivery performance is reported in the Operations, maintenance and renewals chapter.

Protocols

5.65 National Highways spent £55 million on protocols in the interim period. This is smaller than the revised budget of £59 million. The underspend against revised budget was mainly caused by lower than anticipated running costs on Dart Charge and lower than expected activity level associated with Operation Brock.

Other opex

5.66 Other expenditure included £10 million related to the costs incurred on cancelled schemes which is recognised as resource expenditure under International Accounting Standards. This is £9 million less than the £19 million provided to the company as part of setting revised budgets.

5.67 National Highways also reported £6 million of resource income related to the long term lease with Welcome Break covering eight Motorway Service Areas in line with Central Budgeting Guidelines that allows up to 5% of sale of proceeds to be recognised as profit. A change in approach confirmed by the Department and HM Treasury meant that the company had to make a further adjustment of £52 million to recognise the full income in the accounts.

Preparing for RIS3

5.68 Overall, the company underspent its funding due to delays to its proposed programmes, including within its large renewals programme. As a result, this will make delivery of RIS3 more challenging from the outset. This reinforces the need for National Highways to strengthen its governance arrangements and provide confidence that it has appropriate controls in place to oversee its programmes and manage risks effectively. The company must also ensure it understands the implications of its underspend and has robust plans and mitigations in place to enable the successful delivery of RIS3.

-  Previous Enhancements and non-OMR programmes