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Kate Cohen
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Via email

Copied to:

Elliot Shaw
Chief Customer and Strategy Officer
National Highways

23 March 2026

Dear Kate,

Interim period Q3 data update – National Highways’ renewals efficiency reporting

I wrote to you on 6 August 2025, outlining how we proposed to hold National Highways to account for its delivery efficiency in renewals investment during the Interim Period (IP) and beyond. At your request, we have been working with the company to help it demonstrate improved decision making and efficiency of its renewals programme, evidence by its reporting.

Subsequently, I wrote to you in October 2025 and again on 17 December 2025 with our summarised views for the second quarter (Q2) of the IP on the progress made by National Highways. We have now received and reviewed the third quarter’s (Q3) operations, maintenance and renewals (OMR) dataset.

Summary

The Interim Settlement (IS) 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 updated for each asset type, except structures. Costing data continues to be 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). Continued updates have also been provided for Large Renewal schemes that have forecast costs of over £50m.

National Highways is not able to provide quarterly forecast and actual spend data against outputs for all individual asset types as originally intended. However, the company maintains that it remains on track to provide this level of reporting by the end of the investment period, with full quarterly forecast and actual data for each asset type expected to be available for use from the first quarter of the third Road Period (RP3).

Q3 Renewals Position

National Highways continued to underspend on its renewals programme in Q3, delivering £226.3m against its forecast of £243.8m. While the year-to-date position has improved compared to previous quarters, the company remains 11.1% (£110.2m) behind its expected renewals investment to date. National Highways has attributed this underperformance to delays in securing road space, slower than planned design progression, the complexity of some schemes, and over optimistic early year expenditure profiles.

Despite these emerging pressures, the company continues to forecast delivery of its end of year outturn with an expected underspend of £23.3m/1.8%. However, given the continued trend of back-end loading work and the increasing volume of activity now required in the final quarter; when adverse weather commonly affects delivery, there remains a heightened risk that National Highways may not achieve its full programme of planned renewals.

Delivery of technology renewals has deteriorated. National Highways has delivered significantly less output than originally proposed in the first three quarters across all three sub-asset types and has stated that it will not meet its commitment for roadside technology - signs renewals. The other technology assets (CCTV and signals) are still forecast to deliver the bottom of the permissible range set out in your IS.

While it does not impact in year commitments, the company is reporting that its Large Renewals programme, consisting of 12 schemes, is behind its original budget for the period and forecasting an underspend of 31% (£34.87m). This includes funding that was required to progress the development and design of schemes for delivery in the next and future road periods. While forecast of spend alone is not solely an indicator of progress, it remains an important measure and an indicator of the company's readiness to deliver RIS3 and an increased renewals portfolio.

National Highways is still unable to report and demonstrate the efficiency of its whole renewals programme. We expect to see improvements in its Q4 reporting, which we



are due to receive on 7 May 2026 and will be included in our Annual Assessment of National Highways performance to be published in July 2026.

Q3 Asset Specific Renewal Detail

The key findings from the asset-specific output data for Q3 are as follows:

1. Flexible, asphalt, pavement Q3 outturn output delivery was under National Highways' forecast delivery by 24.7%. It delivered 499 lane kilometres (lkms) in Q3, against its forecast of 663lkms. The company has not stated the reason for this under delivery in Q3. However, it is currently forecasting year-end output performance within the agreed delivery range at 4% (62.3lkms) above target, from a 1% under-delivery forecast at Q2. 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 and its pavement key performance indicator (KPI).
2. Rigid, concrete, pavement had 11lkms of planned outputs in Q3 from the only scheme (M27 Junction 5-7) that will be constructed in the IP. These works were delayed into Q4. National Highways remains highly confident of achieving its year-end target and is reporting to exceed its IP commitment of 22lkms by 9% (2lkms), to total 24lkms.

Additionally, IP forecast spend on the concrete renewals programme, that also contains three Large Renewal projects, has reduced to £48.7m (from £75m). The company has attributed this to delays in optioneering studies that intended to progress 15 schemes into the design stage, but only one has. National Highways cited core team resourcing and procurement issues as the main reasons for this delay. The company states that its RIS3 plans have sufficient schedule float to absorb these delays without affecting its future commitments. However, this level of under-delivery against stated intentions increases the risk that the future programme may not be delivered as originally planned.

3. Safety barriers had 126 kilometres (kms) of planned output in Q3. The company delivered 105kms and is forecasting to exceed its end of IP commitment by 25%. The current forecast is significantly above the 5% upper tolerance of the target range and a further 7% above the Q2 position. National Highways has stated that over-delivery is due to errors in its asset data and original forecasts. As specifically set out by the department at the start of the IP, National Highways should discuss with you the need for over-delivery so that you can understand if it is an efficient investment. We have not seen evidence that this has been done by the company for the additional output increase since Q2.

4. At the end of Q3, National Highways has delivered 18 flooding hotspot mitigations in total. The company is forecasting an end of year outturn of 46 mitigations, reduced from 49 reported at Q2. The company is reporting good confidence in achieving the bottom of its delivery range commitment (39 mitigations). Success is heavily dependent on completing a substantial volume of mitigations in Q4.
5. National Highways no longer expects to deliver its commitment target for its technology – signs renewals, a change from its position in Q2 where it reported to us that it had high confidence in delivering its committed outputs. It attributes this to six deferred schemes in the Midlands due to design readiness and complex technological interdependencies (reducing outputs by 50). The Q3 delivery forecasts for CCTV and signals renewals were 106 and 43 respectively, however only seven and 13 were delivered.

To achieve compliance with the bottom of its committed delivery range, the company needs to deliver nearly twice its cumulative output to the end of Q3 for CCTV (179 required versus 91 delivered), and approximately 11 times its Q3 cumulative signals delivery (182 required versus 17 delivered) in Q4 alone. The company reports high confidence in delivering CCTV outputs and medium confidence for signals outputs, with both expected to fall within the committed delivery ranges. However, the significant additional outputs required in the final quarter increases the deliverability risk of both sub-asset classes.

6. National Highways has reported that delivery of its significant structures renewals remains on target. However, the company currently only reports spend to date and does not have associated milestones for the schemes to demonstrate progress against schedule. Without clear 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 continues to find the long delivery timescales associated with this type of renewal challenging to quantify.

Next Steps

National Highways has taken significant steps to strengthen its reporting on renewals and improve its disaggregation of costs and outputs to demonstrate efficient delivery. We recognise that operating within a single-year funding period creates limitations, as it removes the opportunity for National Highways to address or correct under-delivery in subsequent years. However, as we come to the end of the year, assurances previously provided about the company's ability to deliver some of its interim-year commitments no longer appear to be correct.

Of note, areas where National Highways has historically struggled to deliver, such as technology renewals and large renewals, are at risk or are under-forecasting against either spend or committed outputs. This highlights potential weaknesses in the robustness and effectiveness of the company's internal assurance processes.

Given the significant proposed uplifts in RIS3 for these areas, it is critical that National Highways is fully prepared and capable of delivering these programmes effectively and efficiently, and able to demonstrate the reasons and consequences of both under-delivery and over-delivery of its programmes.

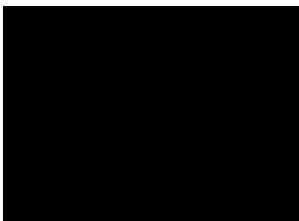
Whilst National Highways' over-delivery of outputs may be additional value for public funds, it remains essential that delivery is efficient, decision making is evidenced and that it represents the right delivery at the right time. As we finalise RIS3, we will work with the company and the department to ensure that an appropriate mechanism is in place to validate whether over-delivery is the correct decision and represents an efficient use of public funds.

Through existing enhanced monitoring, we will work with National Highways so that it can understand how to better evidence and demonstrate the confidence of delivery of its programmes. We will also continue enhanced monitoring of the company's plans to improve renewals costs and outputs.

Our focus will now shift to completing the Interim Period assessment of National Highways' performance, which we will publish in July 2026. Given the more detailed reporting you now receive from the company, we will return to our standard monitoring and reporting arrangements. Therefore, I do not expect to write to you again on this subject as a matter of course, however I will be happy to assist you further if required.

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

Yours sincerely,



Feras Alshaker