

# Highways England's readiness to deliver the RIS2 Designated Funds programme

Final Report

Office of Rail and Road

6 May 2020



# Introduction to the funds

The introduction of Designated Funds (also known as the “ring-fenced funds”) in the first road investment period (RIS1) provided a dedicated funding stream for improvements in areas valued by customers, but which were not traditionally funded by Highways England, such as environmental remediation and cycling schemes.

Highways England was allocated £675m for these programmes over RP1, and ORR’s 2018/19 annual assessment shows that the Company had invested £362m over the first four years of the RIS. Through use of these funds ORR reports that Highways England is on target to achieve its noise KPI (mitigate 1,150 NIAs by the end of RP1) and implement new biodiversity schemes.<sup>1</sup>

**For the upcoming road period (RIS2) there has been a decision to repackage the funds into the following categories:**



Highways England reports that most of the “themes” from RP1 will continue and existing pipeline will form the basis of the repackaged funds – for example both the environmental and innovation designated funds will both continue with a similar vision – and the new headings will allow more scope to adjust the breadth of activities delivered through each fund, as the experience from RP1 shows that the funds do not operate in isolation.

**In our 2018 review, we found that Highways England had experienced difficulty in ramping up the number of projects delivered via the ring-fenced funds in the first half of RIS1.<sup>2</sup>** As a consequence, the Designated Funds programme was heavily back end loaded and the Company faced an uphill challenge to disburse the funds in full within the RIS. We also flagged specific issues facing the air quality fund. To follow up on how Highways England has subsequently addressed these challenges for RIS2, ORR has asked us to look at the Company’s plans for the RIS2 Designated Funds programme and consider whether it is ready to deliver from “day one” of the RIS.

<sup>1</sup> ORR (July 2019) “Annual assessment of Highways England’s performance 2018-19” available [online](#)

<sup>2</sup> CEPA (February 2018) “Highways England’s approach to delivering schemes through its ring-fenced funds” available [online](#)

# Scope and key questions

To assess Highways England’s “day one readiness” – i.e. its ability to deliver the designated funds from the start of RP2 – we have focused on the following five questions:

1. Is there a detailed and robust pipeline of schemes in place for each of the redefined funds from day one?
2. How is Highways England engaging the supply chain and wider set of interested stakeholders to define what good looks like for each fund, in readiness to further develop those pipelines?
3. Has Highways England assessed its own capacity and capability to disburse the funds in full?
4. What lessons from Highways England’s experience in RIS1 has it identified that have informed its plan for RIS2?
5. How is Highways England planning to assess the benefits delivered through the Designated Funds to ensure that value is delivered?

As Highways England is under pressure to deliver scheme milestones at the very end of the RIS period, and is affected by the operational impact of the COVID-19 pandemic, the availability of Highways England staff to engage with this report has been limited. We have focused our review on extant information available to us (i.e. the draft Strategic Business Plan produced in 2018), a set of more up to date documents recently provided by Highways England<sup>3</sup> and an interview on key topics with senior managers from the national Designated Funds team.

The information we obtained has been used to develop an understanding of the current Designated Funds pipeline, focusing on Year 1 (i.e. 2020/21), and to establish the current position with respect to the five questions listed above.

<sup>3</sup> Documents provided by Highways England:

- *Designated Funds Advisory Group Terms of Reference (March 2020)*
- *ORR DF Deep Dive – CEPA Questions addressed.docx (March 2020)*
- *20200319 DF 2021 Indicative Programme – by fund.xlsx (March 2020)*
- *Highways England – Update to ORR – Designated Funds Governance and Management Controls (November 2019)*
- *January Datapack – Designated Funds.pdf (January 2020)*

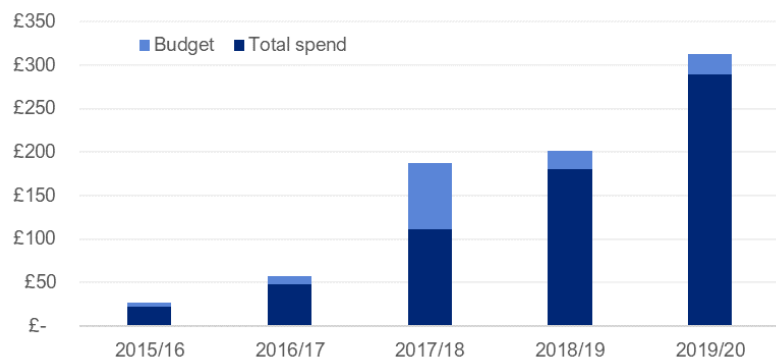
# Context for this review

## Highways England has generated momentum in RIS1 and is likely to exceed a reduced allocation of £635m for RIS1.<sup>4</sup>

Since our 2018 review of the ring-fenced funds, Highways England has ramped up activity such that it has significantly closed the gap between actual and budgeted expenditure. Actual expenditure has increased from £22m in 2015/16 to £181m in 2018/19, and is forecast to rise further to £289m for 2019/20 although this may be an overestimate given recent events. The Company has however consistently spent somewhat less than its budgeted allowances through RP1<sup>4</sup> implying some degree of over-optimism in terms of capacity to deliver which remains challenging to address.

The original RIS1 Designated Funds allocation was reduced in 2019/20 to £635m in agreement with DfT. The air quality budget was reduced by £40m with an element of spend deferred until RP2. As a result Highways England appears to have fully disbursed the revised fund allocation (there is a forecast 1% - 2% overspend according to the January datapack), although it has fallen short of the original £675m allocation by ~ 4%.<sup>5</sup>

Figure 1: Budget vs actual spend over RIS1 (£m)



Highways England’s January data pack also indicates that even before COVID-19, the Company faced a challenging task to deliver the number of planned outputs for 2019/20. The full year forecast for 2019/20 was 203 schemes, but by January it had delivered 63 (30%).<sup>6</sup> While the overall level of expenditure is broadly on track, this gap in outputs may suggest that:

- The schemes delivered in 2019/20 were larger than originally anticipated (or are overspent), at the expense of delivering a larger number of smaller outputs; and / or
- It is taking longer than expected to develop the schemes (either internally or via the supply chain) to a point where they are sufficiently mature for Investment Decision Committee (IDC) approval to begin construction.

The picture by fund is varied – and is discussed further on the following slides. Progress on Environment (EDF), Cycling Safety and Integration (CSI) and Innovation (IDF) appears to have been positive, with around 60% of the fund allocation having been spent at the time of ORR’s last annual review up to the end of 2018/19, and the January data pack suggests that these funds are broadly on course to disburse their remaining allocations in the 2019/20 financial year.

<sup>4</sup> The original RIS1 allocation was £675m but this was reduced in 2019/20 to £635m in agreement with DfT. The air quality budget was reduced by £40m.

<sup>5</sup> The Company’s annual budget targets seem to include just over 16% of financial over-programming. This exceeds typical over-programming levels (which we understand are generally ~10%) but is stated as necessary due to the tendency for Designated Fund scheme slippage.

<sup>6,7</sup> Highways England (January 2020) “January Data pack – Designated Funds”

# Summary of current fund status

## Environment

According to the January data pack fund expenditure appears to be on track for 2019/20, and in response to our Draft Report Highways England told us that they have now delivered all the environmental targets for the year.<sup>8</sup> The January data pack notes that back-end loading has created issues with internal resources for validating delivered outputs (no directorate or area is specified). Highways England indicates that this finding will inform programme management for RIS2. ORR may need to follow up on the progress of specific projects where they are key to Highways England's commitments – e.g. it notes that only 16 electric vehicle charging points had been installed to date against an in-year target of 89.

## Growth and housing

This fund is closed to new schemes as it is fully committed, but disbursement of the residual funds for 2019/20 appears to be at risk – the January data pack assigns the fund a risk status of “Amber”. According to ORR's latest annual review, work had not begun on 20 out of 28 ‘active’ schemes in the final tranche of projects. The data pack flags particular risks with the M181 Lakes scheme (we highlighted delay to this project in our 2018 review) and the A46 RAF Network. Like other schemes, progress has been dependent on third-party contributions but the novel payment mechanisms are not yet approved by DfT (HE does not explain why they are novel or if this issue is limited only to these schemes). There is also uncertainty around developer commitment to the M55 Heyhouses scheme. As Highways England intends to complete the remaining programme in RIS2 through the Safety and Congestion Fund (although it not clear whether funding from RIS1 will carry over), we suggest ORR monitors these risks closely. Underspends against these large schemes is a significant driver of the overall expenditure position for the Designated Funds.

## Cycling, safety and integration

ORR's 18/19 annual review states that there has been a good balance in the number of schemes in the three areas covered by this fund and that Highways England is on track to deliver the target 150 cycling schemes by the end of the RIS. But there is an “Amber” RAG status against this fund in the January data pack – 49 out of 150 cycling schemes had yet to be completed as at January 2020. A number appeared to be underway with others being explored (completion dates are not detailed). Highways England noted concerns over resourcing for validating the back-loaded programme but advised that resources were being added to address this bottleneck.

We also noted in our last review that stakeholders were concerned about support for ‘integration and ‘multi-modal’ schemes. There is no breakdown of the respective value invested in each fund sub-area to determine whether progress has been made. However, given the statement in ORR's last annual review regarding balance between sub-funds, we assume that some progress has been made with integration schemes.

Source: CEPA analysis of ORR (July 2019) “Annual assessment of Highways England's performance” and Highways England (January 2020) “January data pack”

<sup>8</sup> Flooding – the DFs have delivered 14 schemes against a corporate target of 30; Biodiversity – the DFs have delivered 19 schemes against a corporate target of 20; Noise – Highways England has now exceeded its RIS commitment to mitigate 1,150 NIAs; Outfalls – the DFs have delivered 4 schemes against a corporate target of 5.

# Summary of current fund status

## Air Quality

Based on the January data pack, the 2019/20 budget allocation appears undeliverable and the fund will not deliver on its overall ambition for RP1, although we note that a reduced allocation for this fund has been agreed with DfT. We noted previously that this fund is limited in its ability to support schemes which have a meaningful impact on air quality, beyond modest feasibility studies. At the time of our 2018 review there was no credible plan to overcome these issues and we see little progress as at January 2020. Actual in-year expenditure was £12.2m against a 2019/20 budget of £35.7m. Highways England notes that IDC approval has been given to six electric van centres of excellence and as at 5 March 2020 DfT / HMT approval had been secured. Four successful applications to the Air Quality Competition<sup>9</sup> are delayed but Highways England expects contracts to be complete at the end of September 2020.

As per innovation, a 'competition-style' model was used for a portion of the funds in later years of the RIS. But the air quality fund will be subsumed into the Environment and Wellbeing Fund (EWF) in RIS2. We suggest that ORR should pay close attention to the delivery of air quality schemes within the EWF, to ensure that poor progress in this area is not obscured. We also suggest that if the scope of the new EWF needs to be widened to provide the ability to disburse air quality funding, that this is flagged to DfT early on along with the additional freedoms required (including transferring some funding into opex if that can be permitted).

## Innovation

It appears likely that this fund will meet its overall expenditure allocation despite a slow start to RP1. It is now overprogrammed and Highways England recognises this challenge and has flagged the need for flexibility between funds in the next road period. Over-programming may be in part due to the use of competitions (administered by Innovate UK) in later years, which encouraged external organisations to propose schemes at 'feasibility' and 'development' stages. The focus now needs to shift onto evaluating innovation programme expenditure as currently there is no obvious guidance, and whether/ how learning from innovation outcomes are being fed back into the business. We suggest that ORR monitors the ongoing evaluation of innovation schemes.

Overall we note that the RIS1 Designated Funds programme has been significantly back-end loaded due to a combination of:

- **A standing start to RIS1.** It took time to identify and develop scheme designs and thus disbursement has occurred in later years;
- **Mobilisation of internal resources.** We found that the challenge facing Highways England in terms of mobilising and focusing its internal delivery staff and suppliers on the funds in the early years of RIS1, in the context of a wider programme of work was challenging and probably greater than originally anticipated.

Whilst some are performing better than others, across most funds we observe challenges created by the back-ended programme, including underspend and lack of validation resources. This review provides an opportunity for good practice and lessons learned to be integrated into Highways England's plans for RIS2. **Highway's England should be aiming for steady state delivery rather than back end loading in RIS2 and it will be important to ensure that it is resourced to disburse the funds in full.**

<sup>9</sup> Highways England (July 2019) "Highways England unveils successful air quality and innovation competition entries" available [online](#)

# Fund evaluation process

## Spending the Designated Fund allocation is step one – Highways England will increasingly need to show that it is spending well

RP1 offered Highways England an opportunity to learn about what worked, and therefore its monitoring and evaluation (M&E) processes are an important part of improving the value that the Designated Funds can deliver in RIS2 and beyond. We found in our previous review that evaluation procedures were not yet established but recognised as a priority.<sup>10</sup>

This slide sets out what we understand of what appears to be a more developed M&E process.

On a scheme-by-scheme basis, we understand that Highways England recognises that the Post Opening Project Evaluation (POPE) approach is not appropriate for designated funds, as these funds are about delivering a range of wider outputs which go beyond business as usual and which may be realised over a different timescale to traditional road schemes. Scoping studies were undertaken in 2018 to identify an evaluation approach. The proposed evaluation process involves:

### Process evaluation

- Reports on the implementation of the programme – what worked well, or not
- Final Reports to be completed in 2019 to allow for lessons learned to be fed into RP2, with exceptions for the Innovation Fund and Growth and Housing Fund (GHF), where reports are to be submitted later.

### Outputs evaluation

- Demonstrates what was delivered by the programme
- Interim report early 2019 to ensure monitoring processes are in place in time for Final Report by summer 2020, which should capture RP1 results. Again, later dates for Innovation and GHF.

### Outcomes evaluation

- Reports on the effect of the programme, over three stages:
  - Early Outcome Evaluation Report (2020) – what has been spent and delivered; process learnings; initial benefits, indicative value for money; etc.
  - Short-term Outcome Reports (2022), which will include post-programme monitoring;
  - Long term Evaluation Reports (2024) to help to form the business case for RIS3

Under this common M&E framework, Highways England has developed unique evaluation proposals to suit the characteristics of each fund – by which we understand that there is a different approach to evaluating (for example) cycling schemes compared to the Growth & Housing Fund, because of the different benefits which are expected.

Given the timing and overall scale of this piece of work, we did not review any of the Designated Fund evaluation reports which have so far been completed, and so cannot comment on whether or not their findings have been incorporated into the planning of RIS2.

**We recommend that ORR checks a sample of scheme evaluations to ensure that the benefits expected in the business case are realised, and to monitor in more detail whether lessons from previous projects have been incorporated into future fund planning.**

<sup>10</sup>CEPA (February 2018) “Highways England’s approach to delivering schemes through its ring-fenced funds” available [online](#)

# Early RIS2 Designated Fund pipeline

We have tried to establish an indicative profile for the Designated Funds over RP2, although we understand from our recent interview with Highways England that the latest position as per the forthcoming Business Plan may be different from the dSBP, which is the latest view to which we have access. As the dSBP was produced in 2018 it is now somewhat dated, and it was suggested to us that the funds are now “overbid” in 2020/21 which implies a lower total allocation than the profile set out in the dSBP (shown below).

**We note that the figures below may be different to those presented in Highways England’s forthcoming Business Plan.**

Environment and wellbeing	£65m	£65m	£65m	£65m	£65m	£325m
Users and communities	£30m	£30m	£33m	£38m	£38m	£169m
Innovation and modernisation	£40m	£40m	£42m	£47m	£47m	£216m
Safety and congestion	£20m	£30m	£30m	£30m	£30m	£140m

This is unsurprising as the recent RIS2 document notes that “the nature of Highways England’s wider work may mean that it makes sense for smaller projects supported through these funds to move forwards or back to balance wider budgets”, so some change is expected.

We understand that the programme will be populated by:

Roll-over activities and associated funding from RIS1	Schemes pushed back due to RIS1 over-programming	Schemes identified during feasibility work in 2019/20
<p>Some multi-year projects extending into 2020/21 have already been approved at the IDC totaling <b>£4.6m</b>.</p> <p>This may have increased since the dSBP was written.</p>	<p>There is an additional pipeline of schemes across the funds that remain subject to value assessment and IDC approval totalling ~ <b>£300m</b>. There is no indication as to the proportion of schemes that would typically pass through the required internal approvals to delivery.</p> <p>According to the latest 2020/21 programme list we were provided with, there is ~ £133m in the programme for next year with ~£70m of schemes in a reserve list. We understand that some of these schemes have already received IDC approval with the bulk expected to be approved in April/May (although this may now be delayed given other issues). Some funding will be held back for schemes presented to IDC later in the year.</p>	

**It seems to us not unreasonable to expect significant programme change for 2020/21** because the publication of the RIS was delayed, the bulk of the programme has yet to receive IDC approval and as a result of economic uncertainty. Whilst this is largely outside Highways England’s control, it is important that the Company begins to identify and develop a rolling pipeline of schemes over the next two to three years, which makes the most of its five year allocation of funds. We understand that the planning for this will begin in earnest during the summer but it does not yet exist. **The challenge now is to create a profile that is deliverable.**



# Analysis of 2020/21 programme

The dSBP (now out of date) allocates £135m for the Designated Funds and £20m for the Safety & Congestion Fund. But we now understand that the Designated Fund programme for 2020/21 is currently worth ~£133m.<sup>11</sup>

Highways England noted that the allocation of budget between the funds is indicative, because it wants to retain the flexibility to alter the allocations as priorities change and to manage in-year budget pressures. The 2020/21 programme list includes:

- **Environment and wellbeing** ~£40m
- **Innovation and modernisation** ~£46m
- **Safety and congestion** ~£14m
- **Users and communities** ~£33m

Of the £16m allocated to ‘safety’ related projects (not all in the SCF), around £13m relates to smart motorway projects – mainly the addition of 10 new emergency refuge areas on the M25, and the SMP Red X scheme.<sup>12</sup>

The ‘cycling’ theme includes a £5m allocation to schemes on the A30 which were feasibility schemes identified during RIS1.

Of the £13m allocated to ‘Noise’, c.£7m is accounted for by two noise barrier projects and a further £2m on a noise insulation programme (much reduced from RP1). Less progress appears to have been made on biodiversity schemes despite the new KPI target in the Performance Specification.

The largest project can be found in the ‘Innovation’ fund, where £9m is allocated to “[ > ]”.

Highways England will also run two competitions in 2020/21: an innovation and an air quality competition – each will total £2.3m.

Current schemes are split between the regions. The Midlands (large innovation and LED lighting schemes) and South West (cycling and environmental schemes) receive the most funding.

Fig 1: Total cost of DF schemes by region (£m), 2020/21

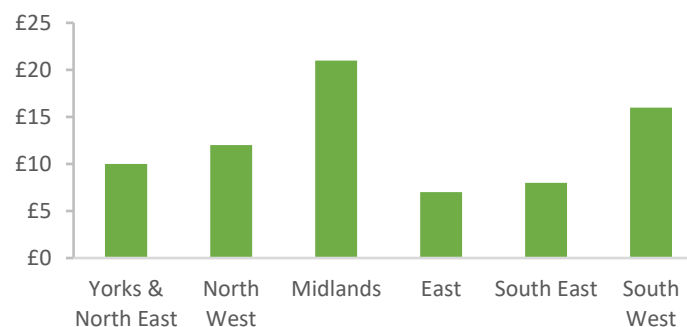
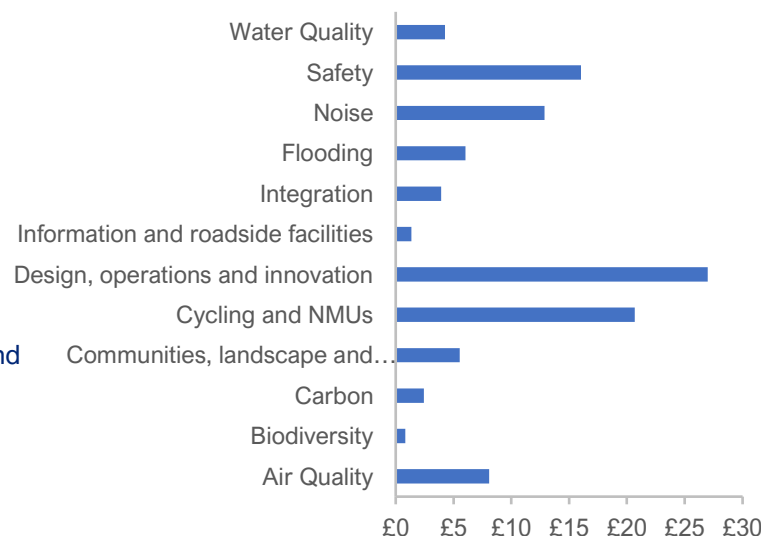


Fig 2: Total cost of DF schemes by theme (£m), 2020/21



<sup>11</sup>20200319 DF 2021 Indicative Programme – by fund.xlsx

<sup>12</sup>It is not explained why the Designated Funds is a more appropriate funding route than the SMP itself.

# Stakeholder perceptions

We spoke to three Designated Fund stakeholders to obtain some external perspectives on Highways England's preparedness for RIS2. Whilst these stakeholders were able to provide some useful intelligence which might inform ORR's approach to monitoring, their views should not be taken as representative of all external stakeholders connected to the funds.

## Engagement at the national level is gradually improving but local relationships are not consistent

Two of the three stakeholders were positive about the progress that has been achieved in terms of collaborative working with the national Designated Funds team. They said that they had been working closely with Highways England to propose several schemes and to monitor scheme progress inside the Company. But even these stakeholders noted that local relationships were not consistently as strong.

One stakeholder was less positive. It wanted to remain engaged but said that it was not getting the level of interest that it would like, despite its efforts to bring forward other partners / opportunities to collaborate with Highways England. It said that it found the Company's interest in these proposals "patchy" which it speculated was due to the size of the Designated Funds programme relative to the overall RIS2 grant.

## Through closer working some partners are learning what Highways England requires in a good scheme

Through the scheme approval / rejection process, some stakeholders are gradually learning more about Highways England's requirements. But we note that one stakeholder referred to a couple examples where it believed that 'approval' of the national Designated Funds team (not IDC approval) was secured only for the scheme to be subsequently rejected by the regional- and area-based delivery teams.

## There are several feasibility studies which could form part of the future pipeline

Two of the stakeholders noted that they had been involved in several feasibility studies during RP1 which they hope will form part of a future RP2 pipeline. They also noted that they had proposed a large number of projects in RP1, and that whilst many had been approved and some outright rejected, there were a portion that could be refined and revisited.

## Stakeholders need greater support to navigate various internal Highways England approvals and to understand the time this takes

One stakeholder who has worked closely with Highways England to deliver Designated Funds schemes in RP1 noted that its overall experience has been positive, but said that it had not fully appreciated the amount of time and effort required to secure various internal sign-offs within Highways England and report against various KPIs, and that this had turned an already ambitious programme into one that required a really hard push in the final months of the RIS to complete. It hoped that there would be earlier planning to avoid this in RIS2.

## Stakeholders see potential for greater collaboration in RIS2 if they can have better visibility of the investment programme

Another stakeholder said that it had requested better visibility of the upcoming investment programme, as there is potential to collaborate on a wider range of projects and locations, and to coordinate delivery with other organisations to help to secure additional benefits.

**Summary** – there appears to have been good progress on stakeholder engagement particularly with the central Designated Funds programme team, but less progress appears to have been made with the regional and area-based teams. It also appears that Highways England's internal processes mean that, relative to their average size, some schemes require a lot of effort to be approved. This means that a pipeline for 2020/21 and beyond needs to emerge quickly if there is not to be delay and back-end loading as was the case in RIS1.

# Governance and capacity

In addition to the draft SBP, we also reviewed an update paper provided to ORR in November 2019 which explained various changes being implemented by Highways England to improve the management of the Designated Funds. The paper notes that:

## Highways England now has a more structured approach to governance and has addressed some of the previous capability gaps

**Designated Funds should be embedded in existing day-to-day directorate control processes.** All schemes are delivered within existing delivery directorates, so they are using the existing project management methodologies in place within these areas of the business. Each directorate has a Project Management Office (PMO) to ensure projects are meeting their spend targets and output milestones. Highways England told us that they expect this to bring a degree of “surety” to the overall programme of delivery.

**There are monthly Designated Funds Reporting Meetings to hold directorates to account.** The head of each directorate’s performance monitoring team meets with the Head of Designated Funds to review progress and discuss / escalate projects which are at amber or red risk of delivery. This allows the PMOs to put into place programme level corrective action when project delivery is at risk.

**Senior leadership hold quarterly reviews to identify deep dives into areas of concern.** PMO Directors for each area of the business meet to discuss areas of concern and direct deep dives where required. These ‘deep dives’ aim to ensure that programme wide issues or risks with delivery are identified and corrective actions are put in place to address them. Highways England cites a recent deep dive into the innovation programme as an example, to ensure that over-programming was being managed down and reported against the fund.

## Delivery capacity should be confirmed prior to investment approval and is less of a concern in year one

Any decision to approve or recommend (as appropriate) an investment by the Investment Decision Committee (IDC) will be based on, amongst other factors, confirmation that there are sufficient resources resourcing in place to deliver. We understand that the current programme contains many proposals for feasibility or detailed design funding, with construction activity likely to be greater in subsequent years. This implies that the capacity challenge is less of an issue presently but could become a greater risk to the programme in the second half of RIS2.

The IDC is supported by the Designated Funds Steering Group which is made up of Director level attendees from Delivery Directorates and support functions, as well as by the Chief Highways Engineer. It is responsible for making strategic decisions so that the ambition for the Designated Funds can be achieved. It does this by (amongst other things):

- “Critically assessing the progress of the Designated Funds programme and holding the delivery directorates to account for delivery”;
- “Supporting and promoting active stakeholder engagement [...]”; and
- “Recommending efficiencies through collaboration with other programmes within Highways England.”

Highways England also told us that it now has a representative from the Commercial & Procurement directorate on the Steering Group, to ensure that there is support for developing proposals which involve new ways of contracting and procuring scheme delivery.

**Summary** – although there has not been time to complete a detailed review of Highways England’s actions in response to our 2018 review, at least at a high level the Company has sought to address several of the programme management challenges that we previously identified, including senior level oversight of capacity and delivery issues.

# Lessons learnt from RP1

Finally, we asked Highways England what lessons it had learnt from its experience in the first Road Period and how it had factored these into its planning for RIS2.

## **Highways England refers to a new, annualised review process to look at status and performance of the Designated Funds**

The Company proposes to establish an annualised review and application process which will take place at the beginning of Q2 of each year – earlier than annual fund planning took place in RP1. The process will include workshops involving technical advisors, key delivery partners and Designated Fund Programme Managers to look at the status and performance of the programme with regards to delivery of outputs and contribution towards Highways England’s key performance metrics (e.g. the KPIs in the Performance Specification) and strategic objectives. The review will then be used to help shape the selection criteria of projects for the remaining funding.

Stakeholders who have worked on the Designated Funds also told us that Highways England requires them to produce “lessons learned” reports, covering both the scope and outcomes of schemes, which could inform future approaches to delivery.

## **There is now more senior level oversight of the pipeline of air quality schemes. This appears necessary.**

Highways England appears unlikely to successfully disburse the full Air Quality Fund, although the Company states that through continued research it has now developed a pipeline of activities which will enable future investment. Further, the Company has put in place CEO level oversight – on a weekly basis the Designated Funds SRO holds a conference call with key air quality technical specialists and delivery teams to ensure delivery remains on track and to identify new initiatives. A bi-weekly meeting is then held with the CEO to ensure that the programme is appropriately resourced.

## **Highways England also plans to embed a greater emphasis on benefits realisation across all funds by:**

- Improving the scheme application form (known as a Project Summary Form) which is used to select and prioritise projects; adopting a more appropriate active mode appraisal tool used elsewhere, and commissioning a review of its own internal appraisal tools to identify whether there are appropriate changes which could be made to recognise the benefits of e.g. cycling and walking schemes;
- Refining the project lifecycle so that only the most suited projects receive funding. Highways England delivery teams are responsible for initially vetting funding applications. These are then reviewed by Designated Fund Programme Managers and endorsed by technical advisors before review and approval by the IDC; and
- Developing a Designated Funds Programme Benefits Strategy, which will be aligned with a new gated investment decision framework and supported by guidance and the creation of programme and project benefits registers, a benefits realisation plan template and appropriate project close-out benefits capture procedures.

A Designated Funds Benefits Realisation and Evaluation Programme Board has been set up to govern the monitoring and evaluation process. The Board will be responsible for ensuring the provision of data on scheme impacts and will report into the Designated Funds Steering Group to ensure that its findings inform future strategy.

**These improvements show that progress has been made. Although slower than might be expected, it appears that Highways England will start RIS2 (current issues aside) in a stronger position, particularly if this progress can be translated into an ongoing and realistic pipeline.**

# Emerging conclusions – Pipeline

## Is there a detailed and robust pipeline of schemes in place for each of the redefined funds from day one?

Highways England has generated an early programme for 2020/21 and tells us that it is “overbid” although we cannot verify the current status of the total allocation because Highways England was unable to share the figures which have fed into the forthcoming Business Plan.

It is likely that schemes in the current programme are at various stages of maturity – some might be ready for IDC approval in April / May but given the wider economic uncertainty others may not be ready for many months, which poses a risk to the delivery of the 2020/21 programme. Ideally the Company will now be looking to establish a visible pipeline for 2021/22 given timescales for scheme development and delivery. We understand that a 2-year rolling programme is envisaged but does not yet exist. **Therefore, we suggest that ORR follows up with Highways England on the overall position of the 2020/21 programme and emerging plans for future years by the end of August 2020.**

Given the timeline for and size of this piece of work, it has not been possible to seek greater transparency around the current and future use of the funds although we are aware that Highways England is preparing its delivery plan. This limits our ability to assess in detail whether Highways England is ready to deliver from day one of RP2. But we suggest that there is likely to be a significant volume of change to the in-year programme (at least for 2020/21) given that much of the programme has yet to receive IDC approval, and a combination of delay in the publication of the RIS and the COVID-19 pandemic. **Highways England may wish to use the April / May IDC meetings to consider whether the 2020/21 programme remains realistic and begin contingency planning for the possibility that it may need to catch-up during years two and three of RP2.**

## How is Highways England engaging the supply chain and wider set of interested stakeholders to define what good looks like for each fund, in readiness to further develop those pipelines?

Suppliers have been supporting the regional delivery teams to develop project proposals, so this provides some comfort that schemes in the current Designated Fund programme should be deliverable (noting that scheme slippage has been an issue in RIS1). It is also positive that Highways England appears to have reflected on our previous findings and is involving suppliers and other stakeholders through competitions on air quality and innovation.

**Despite this substantial progress it is not yet possible to conclude on whether the supply chain is routinely considering the potential to deliver Designated Fund outputs alongside other schemes, or if it understands “what a good scheme looks like” across all areas, because:**

- Highways England was not able to share the Fund Plans with external stakeholders before the publication of RIS2, although we understand they have now been shared in draft; and
- There is a perception, at least amongst the stakeholders we spoke to, that more joined-up working between the national designated funds team and the regional delivery teams would be valuable, particularly on early scheme development.

**Now that the RIS2 has been published, we recommend that Highways England consults with interested external stakeholders on opportunities to collaborate around the wider RIS2 programme, with a view to finalising the fund plans later this year.**

# Emerging conclusions – Capacity

## Has Highways England assessed its own capacity and capability to disburse the funds in full?

**The programme management processes now feel more substantial than they did when we last reviewed the funds.**

Although we have not revisited our previous recommendations in detail, it appears that Highways England has made good on several of the actions identified, including better and more automated reporting. There also appears to have been a period of internal reflection on the lessons learned from RP1 and the implementation of recommendations from an early review of governance arrangements, processes and procedures. This ought to put the Designated Funds programme in a better place to start RIS2 than it was at the time of our 2018 review.

That said, given previous experience of scheme slippage the Company should remain realistic about what it can deliver in-year and reflect on the intricacy of its internal approval processes which remain a challenge – particularly for small schemes or where there is a recognized desire to “do things differently”.

**Capacity does not appear to be an initial concern, but it should remain on the programme-wide risk register because the regional delivery teams will be under significant pressure to deliver an ambitious overall RIS2 portfolio of investment.**

We note that Highways England has spent in excess of £280m on Designated Fund projects in 2019/20, so this provides some comfort that the Company now has the capacity to deliver the required average run rate of ~£170m per annum during RP2.

However, there will remain an ongoing risk around the capacity of the delivery teams which are responsible for initially vetting funding applications. There is no suggestion currently of a capacity or a capability shortage per se, but there still appear to be some issues around “joined-up-ness” with area teams who are primarily responsible for initial scheme proposals. These relationships must work well if a rolling pipeline of schemes is to emerge successfully, but stakeholders tell us that collaborative relationships are not as common at local level, than they are with the national Designated Funds team, and there is a perception that Designated Funds are still treated as secondary to the main RIS investment programme given its overall value.

Whilst we note that Highways England’s recent review of Designated Funds governance led to a clarification of roles and responsibilities, and that we have been told that both Major Projects and Operations are much more engaged than five years ago, **we recommend that ORR regularly monitors the Company’s efforts to engage delivery teams, particularly as wider capacity pressures may become an issue as the Company develops a pipeline of construction activity in later years.**

Highways England is exploring new ways to bring in external stakeholder delivery capability, but this remains at the margin. **Given the scale of the RIS2 programme overall, Highways England should explore ramping up of stakeholder involvement in delivery of designated funds schemes.**

# Emerging conclusions – Lessons learned

## What lessons from Highways England's experience in RIS1 has it identified that have informed its plan for RIS2?

Highways England appears to have reflected on several lessons learned from RP1:

- **The fund headings and objectives are broader.** We infer that this reflects the experience that schemes can often result in multiple benefits that potentially span more than one fund.
- **New priorities and selection criteria will be communicated to delivery teams to help enhance and focus applications.** Given that the funds have been 'repackaged' there is a risk to the momentum that Highways England has latterly generated in RP1. Addressing this via clear communication of scheme identification and selection guidance is a crucial step. We note that there is an improved Project Summary Form – which may help to select and prioritise projects – but we caution that too much change could frustrate external stakeholders who are gradually getting up to speed with Highways England requirements.
- **There will be a more streamlined and automated reporting process.** This is welcome given that the reporting system we found in 2018 made management of the funds an onerous, labour intensive process and did not facilitate accurate cost reporting or easy identification of what percentage of schemes were being delivered under or over budget.
- **Planning processes will begin earlier in the year.** Highways England also refers to a new, annualised review and application process to look at status and performance of the Designated Funds. The aim appears to be to support delivery and to ensure that the Company is pursuing a balanced range of outputs, and if used well should enable earlier visibility of the next year's Designated Fund pipeline to the rest of the business. Through the annual review process there also appears to be a link to the broader range of relevant KPIs / PIs which make up the Performance Specification.

Whilst this appears to demonstrate good progress, we suggest that ORR continues to monitor:

- **Progress towards a more balanced set of outputs.** Analysis of the current programme shows that there are (e.g.) ~85 NMU schemes and ~57 flooding schemes with a combined total cost of ~£27m, but less progress has been made on carbon (4), safety (4), and roadside facilities (1).
- **Joining up the central Designated Funds PMO with regional delivery teams.** We suggest that ORR continues to monitor the wider problems that we previously identified and actions taken to prevent recurrence, such as a lack of momentum during the first half of the RIS period, a lack of clarity around the purpose of the funds in areas where desirable outcomes are proving difficult to define, and poor quality of reporting from the delivery parts of the business. Whilst improvements have been made, these risks may resurface given the wider pressures in the RIS2 portfolio.

Initial feedback from the stakeholders we have spoken to suggests that there is still a concern about the extent to which Highways England's delivery teams are fully engaged or "joined up" with the national PMO team – particularly on initial scheme development (i.e. prior to selection / investment decision).

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# Emerging conclusions – Lessons learned

## **Continued: What lessons from Highways England's experience in RIS1 has it identified that have informed its plan for RIS2?**

During recent conversations with key stakeholders we also noted the following issues but did not see an explicit reference to them in the material provided by Highways England. This does not mean that the Company has not considered them, and a subsequent interview with Highways England suggests that they have heard similar feedback, but we suggest that ORR follows up on these concerns, as if unaddressed they could pose a risk to the maximization of benefits through the Designated Funds:

- **Obtaining sign-off from various internal Highways England directorates.** One stakeholder with experience of delivering schemes on behalf of Highways England noted that they now have an improved understanding of the requirement to achieve various internal Highways England approvals and then to report on outputs against KPIs. There is no suggestion that these requirements are 'disproportionate', but the associated workload was not well understood prior to developing the programme and it has contributed to slower than expected progress against challenging delivery targets. As Highways England considers expanding or replicating these delivery routes, other stakeholders may find value in additional guidance to make these proposals more transparent, or else the Company should reflect on where the internal approvals processes might be streamlined for smaller programmes or where there is a recognised desire to "do things differently".
- **Forward visibility across the RIS2 programme.** Forward visibility across the portfolio of maintenance, renewal and improvement schemes was flagged as something that could potentially enable closer collaboration between external partners and Highways England's delivery team, as it would provide an opportunity to explore potential synergies between highways schemes and other additional outputs that are well aligned with the Designated Funds. Highways England indicated that now RIS2 has been published, there is a desire to discuss the wider programme with the Designated Funds Stakeholder Advisory Group, but that this discussion had not yet taken place.

## **How is Highways England planning to assess the benefits delivered through the Designated Funds to ensure that value is delivered?**

Highways England is developing a Designated Funds benefits realisation strategy to be aligned with a new gated investment decision framework and Highways England's existing benefits management guidance. This sounds welcome although as it remains in development, we suggest that ORR monitors whether and how effectively it becomes embedded within the business.

Whilst we recognise that it is still too early in many cases to evaluate the impact of the designated funds, the information presented in the draft SBP and subsequent documents is too high level to determine whether the fund pipelines are being populated with projects which deliver valuable outcomes, versus those that are 'ready to proceed'.

We note that Highways England has control processes, including its 'value management' reviews by technical specialists and IDC approval gateways which should help to mitigate this risk. **But in a world where programme slippage has previously contributed to the failure to disburse the funds as planned, we suggest that Highways England should continue to develop its approach to monitoring and evaluation further and set out more clearly how the findings from this process is feeding into stable pipeline development and streamlined scheme approval.** This should include setting out its longer-term plans for a deeper dive evaluation of specific programmes and the impact on key performance outcomes (e.g. casualties and iRAP safety assessment ratings, biodiversity units etc). A separate approach will be required for innovation, given that not all innovation will be successful, to ensure that the Company is able to translate some of this expenditure into valuable efficiencies in future Road Periods.



# Recommendations

Ref	Theme(s)	Recommendation
R1	Pipeline	ORR should follow up with Highways England on the overall position of the 2020/21 programme and emerging plans for future years by the end of August 2020.
R2	Pipeline	Highways England may wish to use the April / May IDC meetings to consider whether the 2020/21 programme remains realistic and begins contingency planning for the possibility that it may need to catch-up during years two and three of RP2.
R3	Stakeholder engagement	Now that the initial detail of RIS2 has been published, we recommend that Highways England consults with interested external stakeholders on opportunities to collaborate around the wider RIS2 programme, with a view to finalising the fund plans later this year.
R4	Capacity	We recommend that ORR regularly monitors the Company's efforts to engage delivery teams, particularly as wider capacity pressures may become an issue as the Company develops a pipeline of construction activity in later years.
R5	Capacity	Given the scale of the RIS2 wider programme, Highways England should explore opportunities to further expand stakeholder involvement in delivery.
R6	Lessons from RP1	ORR should monitor Highways England's annual review process to determine whether it is making progress towards a more balanced set of Designated Funds outputs, and to ensure that regional- and area-based delivery teams are more 'joined-up' with the national Designated Funds PMO team.
R7	Programme evaluation	<p>(a) We recommend that ORR checks a sample of scheme evaluations to ensure that the benefits expected in the business case are realised, and to monitor in more detail whether lessons from previous projects have been incorporated into future fund planning.</p> <p>(b) Highways England should continue to develop its approach to monitoring and evaluation further and set out more clearly how the findings from this process is feeding into pipeline development and scheme approval.</p>



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