

Review of Highways England's delegated expenditure controls

Prepared by ORR for the Department for Transport

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1. Introduction

One of ORR's core activities as the Highways Monitor is to assess Highways England's compliance with the assurance arrangements set out in the company's Framework Document with the Department for Transport (DfT)¹. These arrangements include the financial controls that Highways England is required to have in place because the company has delegated authority to incur expenditure on behalf of DfT, as part of the agreement to increase their delegations in relation to investment decision making on behalf of the Department. Annex A provides further background information.

This report summarises the findings of our second annual review of Highways England's delegated expenditure controls undertaken in May and June 2017.

Our work has been undertaken as per the requirements of the Memorandum of Understanding between ORR and DfT² which requires us to assess Highways England's compliance with the assurance arrangements in sections 7.2 to 7.8 of Highways England's Framework Document.

2. The scope of our review

The scope of this review was agreed with DfT and Highways England in February 2017. The agreed scope was largely to follow up the work that we undertook in 2015-16. We have assessed:

1. Highways England's progress in addressing the recommendations made in our 2015-16 review;
2. Changes to relevant procedures since our 2015-16 review.

¹ See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414863/highways-england-framework-document.pdf

² See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411801/mou-orr.pdf.

3. Results

The results from our testing are summarised in the table below.

3.1 Follow up of recommendations in our previous review

	Issue identified in our 2015-16 report	Comments from 2016-17 testing
a.	Resourcing of the Chief Analyst's Unit had been slow and Highway England found it challenging to fill vacancies	<p>Highway England has acknowledged that recruitment last year was a challenge, but it considers that it has robust plans in place for recruitment of 30 new posts in 2017-18. We have reviewed the plans and consider them to be robust and realistic. We note that DfT's Roads and Economics Modelling Team is working with the Chief Analyst Unit to agree a new approach to monitoring their progress and capability. The proposed approach is to be agreed with DfT on 17 July</p> <p><i>Conclusion</i></p> <p>Subject to Highways England achieving its planned resourcing, the company should meet the analytical capability that was previously provided by DfT by the end of 2017-18</p>
b.	Highways England should finalise the draft Subject Matter Advisor (SMA) guidance	<p>Highways England established the role of the Subject Matter Advisors (SMAs) to provide challenge in the approval of business cases. Highways England has developed, but still not finalised their guidance for the role of SMAs</p> <p>Highways England considers that its current approach provides a flexible approach for updating the guidance and therefore does not intend to finalise the guidance</p> <p><i>Conclusion</i></p> <p>We still recommend that Highways England's senior management team should endorse and finalise the draft SMA guidance to provide more structure and rigour about the role. Whilst flexibility may be desirable, we consider that this could be achieved through version control of the document</p>
c.	The quality of the financial, procurement and management cases	Our 2015-16 review found that the strategic and economic cases supporting investment decisions were comprehensive: however, the financial,

	<p>supporting investment decisions could be improved</p>	<p>procurement and management cases of Highways England's Five-Case business model could be more comprehensive</p> <p>Our 2016-17 review of a sample of business cases has found that the management, commercial and financial cases within these business cases are consistent with the company's Business Case Guidance. However, they are significantly less detailed than the strategic and economic cases</p> <p>Our review identified that business cases are internally reviewed and where quality concerns have been identified, they have been addressed</p> <p><i>Conclusion</i></p> <p>We recommend that there is still scope for further improvement of management, commercial and financial cases that support investment decisions. In particular, that there should be more detailed information supporting these cases</p>
d.1	<p>Mandating completion of the business case checklist would provide a further layer of assurance that all required elements of a business case have been completed</p>	<p>Highways England's business case guidance includes a checklist of areas to be completed before and after submission of the business case for approval by the investment decision maker. Our previous review identified that completion of the checklist was not mandated and often not completed. We advised that mandating completion of the checklist would provide a further layer of assurance that all required elements have been fulfilled</p> <p>Our 2016-17 review has identified that although the checklist is included as part of the business case guidance, it has still not been mandated. Highways England considers that a checklist approach builds the wrong behaviours from staff drafting the business cases and that they would prefer that the quality of submission overrides the need to 'tick a box'. We note that Highways England is currently reviewing this process</p> <p><i>Conclusion</i></p> <p>We acknowledge that this process is being reviewed. However, Highways England has not explained how a re-designed process may provide a similar level of control to mandating completion of</p>

		the checklist. As such, we consider that a mandatory checklist would remain a useful additional layer of assurance
d.2	Communication between SMAs and the Investment Decision Committee (IDC) could be more effective	<p>Our 2016-17 review has identified improvements to the way in which SMAs communicate with the IDC, in particular, new templates which should improve the quality of written submissions, and clearer evidence of review and challenge</p> <p><i>Conclusion</i></p> <p>Highways England has made improvements to the way in which SMAs communicate with the IDC. These improvements address our previous concern</p>
e.	Establish a capital portfolio management office (CPO).	<p>DfT required Highways England to establish a CPO. Last year, our review found that a fully resourced CPO with a clear remit had not yet been established. From our wider monitoring of Highways England, we are aware of Highways England's progress in developing its CPO and the challenges that the company still faces to develop a clear capital baseline for Road Period 1</p> <p><i>Conclusion</i></p> <p>A CPO has been established. Highways England is continuing to develop its portfolio and programme management capability. We are currently undertaking a separate review of the company's portfolio and programme management capability to inform our RIS2 efficiency review. This review will be completed by September 2017</p>
f.	Reducing duplication of information supporting Board-level investment decisions	<p>In our 2015-16 review we noted that there is duplication of information supporting Board-level investment decisions and that there was scope for streamlining Highways England's approach. New templates were introduced in April 2016 for communication with the Board. These templates summarise various aspects of the business cases in a consistent manner which reduces duplication</p> <p><i>Conclusion</i></p> <p>Our previous recommendation has been addressed</p>
g.	Post-Opening Project Evaluations (POPEs) could	It has been a long standing practice for POPEs to be produced one year and five years after highways

	<p>be published in a more timely manner</p>	<p>schemes open for traffic. However, Highways England does not have a formal policy that details how and when POPEs should be produced. Our previous review identified that there may be scope for improvement in the timeliness of publication of these reports. Our 2016-17 follow up work has identified that there are a number of POPEs which have been completed but not yet published. DfT noted due to the recent elections, publications had been put on hold. Provisional publication grid slots have now been agreed for the publication of the POPE reports</p> <p><i>Conclusion</i></p> <p>Highways England has not been able to publish POPEs on a timely basis. The company should work with DfT to resolve any issues with Cabinet Office publication.</p>
<p>h.</p>	<p>Business cases and statements of prioritisation have not been published</p>	<p>Highways England agreed with DfT to publish business cases and statements of prioritisation for larger programmes of spending to provide greater transparency on investments to the public for scrutiny, as part of greater levels of delegations provided to Highways England</p> <p>To date, no business cases or statements of prioritisation have been published. We understand that Highways England is discussing with DfT the most appropriate way to publish information about business cases and statements of prioritisation, taking various factors into consideration, including commercial sensitivity</p> <p><i>Conclusion</i></p> <p>We recommend that Highways England should work with DfT to agree the most appropriate way to improve transparency in relation to business cases and statements of prioritisation. It should then ensure that relevant information is made available in a timely manner</p>

4. New processes

In October 2016, Highways England introduced a new sub-committee of the Board: the Investment Committee (HE IC). This provides the ability for a greater level of senior focus on investment decisions than could be spent as part of normal Board business. Members of the HE IC are Non-Executive Directors and are supported by the Chief Executive and the Chief Financial Officer in the delivery of their business. The structure for all investment decisions follows a framework, which is set out in the Highways England Investment Decision guidance (and was agreed with the DfT as part of the original delegations process).

In summary, the new HE IC approves all investment for Tier 2 projects (whole life project costs between £200m to £500m), which were previously approved by the Highways England Board. Tier 1 projects (above £500m) or those projects that are classified as 'novel and contentious' (as per the HM Treasury definition in Managing Public Money) continue to be approved by the DfT's Board Investment and Commercial Sub-Committee (BICC). However, Tier 1 projects will have first passed through the new HE IC, who would have recommended the investment for approval. We note that the HE IC also makes approvals for any Tier 3 projects (projects between £50m and £200m) that are escalated by the Executive Level IDC, which has approval delegation for Tier 3 projects and below.

We consider that the HE IC strengthens the governance for large, and novel and contentious investment decisions.

5. Summary

Building on the findings of our previous review and the additional information provided through the limited scope review that we have undertaken this year, Highways England's procedures for investment decisions are clearly documented and adhered to. Oversight of investment decisions for large (Tier 2) projects has been strengthened with the introduction of the sub-committee to the Board (HE IC).

Some of the recommendations from our previous review have been addressed, but not all. We would encourage Highways England and DfT to give further thought to the outstanding matters set out in Section 3 of this report. In particular, we would encourage Highways England to address improving transparency of business cases and POPEs, and strengthening the management, commercial and financial cases supporting investment decisions.

Annex A

Highways England produces business cases for investment in its network in accordance with HM Treasury's Five Case Model³. Business cases comprise the following five components:

Strategic Case

The strategic case describes the business synergies and strategic fit of the proposed project. This includes reasons why the project is required, defines outcomes and what could be achieved.

Economic Case

The purpose of the economic case is to demonstrate that the project optimises public value. This includes considering different options and conducting a cost benefit analysis.

Commercial Case

The commercial case deals with the planning and management of procurement.

Financial Case

The financial case sets out the capital and revenue requirement for the proposed project.

Management Case

The management case demonstrates that the "preferred option" is capable of being delivered successfully, in accordance with recognised best practice.

As part of roads reform, the approval of some business cases was delegated from the Department for Transport to Highways England. The company now has the authority to make investment decisions that were previously made by the Department. The investment structure is as follows:

Tier 1 projects are projects with expected whole life costs above £500m, or are considered to be novel and contentious. Tier 1 projects continue to be approved by the Department for Transport's *Board Investment and Commercial Sub-Committee* (BICC). Tier 2 projects (expected whole life costs between £200m-500m) and Tier 3 projects (expected whole life costs between £50m-200m) are now approved internally within Highways England. The Highways England Investment Committee ('HE IC') is a sub-committee of the Highways England Board. HE IC is responsible for approving Tier 2 projects and any Tier 3 projects that are escalated. The Highways England Investment Decision Committee ('HE IDC') is responsible for approving Tier 3 projects. Projects with an expected whole life cost below £50m are approved by the Executive Level IDC.

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector_business_cases_2015_update.pdf