

Review of Highways England's delegated expenditure controls

Prepared by ORR for the Department for Transport

July 2020

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 a broader level of delegated authority to incur expenditure on behalf of DfT, as part of the agreement to increase their delegations for investment decision making on behalf of the government department.

This report summarises the findings of our fourth review of Highways England's delegated expenditure controls undertaken between March 2020 and April 2020.

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 (April 2015).

We have taken steps to ensure that the recommendations are agreed by all parties.

2. The approach of our review

The approach to this review was agreed with DfT and Highways England. We have agreed a new approach for RIS2 requiring Highways England to self-certify compliance for our high-level review. Therefore, for the final RIS1 review we have looked at all areas of the delegated expenditure controls, rather than just the areas where we had recommendations in the past. We have taken a light-touch approach to the review recognising the processes Highways England has in place in 2020. The agreed scope included a number of tests that came under four headline areas as follows;

1. **Culture, credibility and capability** - Highways England is publicly credible in its efforts to ensure good value for public money;

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.

2. **Control** - The Board and Accounting Officer of Highways England are effective, with governance systems that allow it to promote value for public money and ensure that relevant standards are met;
3. **Decision-making** - The decisions taken in Highways England on its investment are consistent, evidence-based and enhance value for public money;
4. **Evidence** - The information and analysis which support investment decision-making in the company are robust.

3. Results

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

3.1 Culture, credibility and capability

	Test identified	Comments from 2019-20 testing
a.	Appointment of a Chief Analyst, responsible for the quality of analysis across Highways England	<p>There is a Chief Analyst in post. The role profile that the Chief Analyst is hired against includes key accountabilities, and essential knowledge, skills and experience. It also covers impact, decision making and health and safety.</p> <p>We note that we spoke with the Chief Analyst to confirm his position and role.</p> <p><i>Conclusion</i></p> <p>The current Chief Analyst was appointed in 2018 against an appropriate role profile</p>
b.	Creation and maintenance of sufficient economic and analytical expertise to quality assure work carried out by individual project teams	<p>The Chief Analyst's unit organisation chart shows the extent of the Chief Analyst's office. The team is broken down into several sections, transport planning, performance analysis & modelling, economics and evaluation. The team is currently very well served with minimal open vacancies.</p> <p><i>Conclusion</i></p> <p>Highways England have achieved continued sufficient capacity in the Chief Analyst's unit.</p>
c.	Representation of Chief Analyst and expertise on the	The terms of reference (ToR) for the IDC confirm the attendance of the Chief Analyst in an advisory capacity.

	Investment Decision Committee	<p>It also outlines the other key attendees (by role) to ensure that there is appropriate expertise involved in these meetings.</p> <p>A review of a sample of meeting minutes of Investment Decision Committee meetings shows the Chief Analyst has attended and provided robust challenge at these meetings. When the Chief Analyst was unable to attend an appropriate representative from his unit attended in his place.</p> <p><i>Conclusion</i></p> <p>There is sufficient expertise on the Investment Decision Committee, supported by the ToR and attendance logs at meetings this year.</p>
d.	Regular reporting of information to the DfT shareholder team, client team and Highways Monitor in line with agreed data sharing provisions, including any information which the Principal Accounting Officer requests in order to fulfil their obligations.	<p>The Highways Monitor receives a performance pack on a monthly basis, quarterly updates and additional information as and when it is requested.</p> <p>DfT confirmed that they also receive the monthly performance packs and quarterly updates that Highways England provide to the Monitor. Also, a comprehensive information pack is supplied to DfT's Tier 1 committee (Investments, Programmes and Delivery Committee, IPDC, formerly BICC).</p> <p><i>Conclusion</i></p> <p>There is continued regular reporting to DfT and the Highways Monitor.</p>
e.	Compliance with the requirements of the call-in regime set out in the framework document	<p>There are four tiers to Highways England's call-in regime. All Tier 1 projects (over £500m or 'novel and contentious') are automatically 'called-in', i.e. must be approved by DfT's IPDC before proceeding to the next business case stage. Tier 2 (£200m to £500m) and Tier 3 (£50 to £200m) projects are not automatically called in by DfT. In standard cases approval is granted internally by Highways England's Board for Tier 2 projects and the IDC (Investment Decision Committee) for Tier 3 projects. However, Tier 2 and Tier 3 projects can be called in to DfT if they are novel or contentious, or expectations set out in the Road Investment Strategy are no longer valid. Tier 4 projects (under £50m) are approved within Highways England's relevant directorate subject to finance approval.</p> <p>Tier 1 projects are outside of Highways England's delegated expenditure controls and we have not reviewed approvals of these by DfT. The call-in regime was used for one scheme in RIS1, A358 Taunton to Southfields. This was because the</p>

		<p>scheme was considered novel and/or contentious due to the challenges around developing an appropriate scheme option.</p> <p>Although not initiated through the call-in regime, Highways England has engaged with DfT where there have been changes to scope or timing of other projects. These changes have been considered through the DfT change control process. Within change control Highways England propose changes which are reviewed by DfT and the Monitor. The final decision on change is with DfT. The Monitor participates in this process as an advisor to DfT..</p> <p><i>Conclusion</i></p> <p>The call in regime has been used for one RIS1 scheme, A358 Taunton to Southfields. This was because at the time the scheme was considered to be novel and/or contentious. This is appropriate and in line with the requirements of the call in regime.</p>
f.	Establishment or continuation of centres of expertise responsible for supporting and quality assuring work to assess the strategic, financial, economic, commercial and management implications of proposed investments, drawing on relevant central guidance where appropriate.	<p>We reviewed the 'Guide to quality assurance reviews' (Subject Matter Advisors (SMAs) guidance). When putting together a business case, individuals can (and should) seek SMAs advice for drafting submissions for an investment decision committee (IDC).</p> <p>The guidance sets out the processes and questions considered by SMAs as they carry out challenge through the Investment Decision process. The guidance is then broken down to cover several different SMA teams, for example, health safety and wellbeing, legal and commercial. There is detail for the teams about how their process works and what sort of information and questions they consider.</p> <p><i>Conclusion</i></p> <p>SMAs are designed to support the process of compiling a business case in line with HMT Green Book guidance, through being centres of expertise in particular areas. The IDC process supports the continued use of SMAs. The SMA guidance includes details of strategic, financial, economic, commercial and management (governance) implications.</p>
g.	Review public reports relating to Highways England's performance, capability, quality of plans.	<p>There have been five annual assessments of Highways England performance in RIS1 from 2015-16 to 2019-20. These annual assessments all identified areas for continuous improvement, however were also largely positive that Highways England were moving in the right direction and were also achieving and exceeding some targets.</p>

		<p>The Monitor's advice on the draft strategic business plan for RIS2 recognised that over the course of the first road period Highways England has become a more capable organisation. The company has improved its understanding of the needs of road users, its asset management capability and its ability to plan for efficient delivery. It also recognises that the Draft Strategic Business Plan has good supporting evidence in many areas. It represents a step-change in quality compared to plans produced for the first road period. This reflects the company's growing maturity, increasing customer and safety focus, and improving portfolio management capability.</p> <p><i>Conclusion</i></p> <p>Highways England has shown improvement over the duration of the first road period and is now a more capable organisation. The company engages constructively in discussions with the Monitor on areas of continuous development.</p>
h.	Interviews with DfT as key stakeholders (client and shareholder)	<p>We spoke with DfT to understand their perspective on the information that they receive from Highways England and if it is appropriate in allowing them to fulfil their roles.</p> <p>We note that DfT are broadly content with the range of information provided to them but are always looking for opportunities to work with Highways England to improve this information. In some cases this may be through the refreshing of the format of a report or establishing the format and expectations of new types of reporting.</p> <p><i>Conclusion</i></p> <p>DfT are broadly content with the information that is received from Highways England. They are looking to review how items are reported in RIS2 as part of continuous opportunities for improvement.</p>

3.2 Control

	Test identified	Comments from 2019-20 testing
a.	Non-executive director(s) specifically tasked with checking and challenging the work of the Capital	We reviewed a copy of the Highways England Investment Committee Terms of Reference (ToR). This is the Board level committee.

	Portfolio Management Office and the Chief Analyst's unit	<p>It notes that the membership of the committee will include at least four non-executive directors. It is only members who have voting rights.</p> <p>These ToR were last updated in February 2020 so are current and accurate.</p> <p><i>Conclusion</i></p> <p>There are non-executive directors that are required to be part of the membership of the Highways England Investment Committee.</p>
b.	Maintenance of the assurance provided by the Project Control Framework, and its adaptation and extension to investment across the rest of the company	<p>We obtained a copy of the project control framework handbook.</p> <p>The document outlines the key responsibilities of those involved in a major project. The core principals of the framework are the lifecycle, the project deliverables, processes and governance. All major projects must progress through the stages of the PCF.</p> <p>The PCF is a live electronic site that is updated frequently and the handbook notes that users should check back regularly to ensure that their products match the latest descriptions and templates. To help users keep track of any changes, they are publicised in both regular PCF newsletters and on the version control log. These controls ensure that the assurance is maintained and reviewed on a regular basis.</p> <p>There is also an equivalent to this handbook for other activities (not major projects) across Highways England which outlines the stage gates schemes must go through and scheme passport process. Adherence to the guidance is essential to support investment decisions.</p> <p><i>Conclusion</i></p> <p>The project control framework and equivalent documents ensure maintenance of the assurance against the investment decisions of the company.</p>
c.	An equivalent or equivalents to the Project Control Framework (as currently used in Major Projects) to govern investment across Highways England	<p>The investment decision control (IDC) manual sets out the objectives of the investment decision process, followed by an in-depth explanation of the process. The manual covers each stage including strategy & planning, options, development etc.</p> <p>There is a chapter that details the roles and responsibilities of the SRO, business partners and SMAs. There is also detailed coverage of the process to be followed and the information required in a business case.</p>

		<p>It was last updated to v6.0 on 1st December 2019. There is documentation within the manual showing regular reviews and updates to the documents since October 2015.</p> <p>We also reviewed the 'Guide to quality assurance reviews' (SMA guidance). The guidance sets out the processes and questions considered by SMAs as they carry out challenge through the Investment Decision process.</p> <p>The guidance is then broken down to cover several different SMA teams, for example, health safety and wellbeing, legal and commercial. There is detail for the teams about how their process works and what sort of information and questions they consider.</p> <p><i>Conclusion</i></p> <p>The IDC process manual details how investments are governed across Highways England. This document is being regularly reviewed and updated. It is also supported by other supplementary documents such as the SMA guidance.</p>
d.	Review effectiveness of Board's control and governance	<p>We reviewed Highways England's Annual Report and Accounts 18-19 and spoke to the Company Secretary to gain an understanding of the internally led review of the Board's effectiveness. This identified that the review showed progress on items highlighted in the previous externally led evaluation. The internal review also identified two areas for focus, customer service and broader stakeholder engagement.</p> <p>Highways England, in response to these recommendations, introduced quarterly customer service updates and improvements were made to the stakeholder management plan.</p> <p>We also reviewed the report to parliament by DfT for 2018-19, 'Highway England's Performance' which considers that "Highways England's structures are now well embedded and are continuing to work well. Under the leadership of the Chair, the Board is functioning effectively with a continuing focus on improvement".</p> <p>It recognises that the changes in appointments at various boards in the last year has added to the mix of skills and expertise. It also notes the results of the internally led review was generally positive and identified good ways to move forward and improve.</p> <p><i>Conclusion</i></p>

		The evaluations of the Board's effectiveness have been well considered by Highways England and appropriate actions have been taken to address any issues raised. DfT consider that the company's Board is functioning effectively and looking to improve.
--	--	---

3.3 Decision-making

	Test identified	Comments from 2019-20 testing
a.	Establish an Investment Control Framework, with appropriate mechanisms for approving investment	<p>The investment decision control (IDC) manual sets out the objectives of the investment decision process, followed by an in-depth explanation of the process. The manual covers each stage including strategy & planning, options, development etc.</p> <p>There is a chapter that details the roles and responsibilities of the SRO, business partners and SMAs. There is also detailed coverage of the process to be followed and the information required in a business case.</p> <p>References are made consistently throughout the manual to the various approvals that need to be obtained in order to progress through the process.</p> <p>It was last updated to v6.0 on 1st December 2019. There is documentation within the manual showing regular reviews and updates to the documents since October 2015.</p> <p><i>Conclusion</i></p> <p>Review of IDC end-to-end process documentation and business case guidance demonstrates that Highways England has an appropriate investment control framework with appropriate approval processes and check points. The document is being reviewed and updated at regular intervals.</p>
b.	Establish a capital portfolio management office (CPO), able to support consistent investment decisions across the company	<p>We reviewed a copy of the Capital Portfolio Management (CPM) Team Structure which was approved in June 2018. This shows a clear team structure designed to support consistent investment decisions across the company.</p> <p>We do note that there a number of vacancies present on the team structure and Highways England must ensure that the open vacancies do not impact on their ability to support investment decisions.</p>

		<p>We confirmed with a CPM representative that the team structure is still a fair reflection of the team resources at the current time.</p> <p><i>Conclusion</i></p> <p>There are a number of vacancies present in the CPM org structure, (seven vacancies of twenty-eight posts). There is a risk that a high number of vacancies impact on the ability of the team to perform their duties.</p>
c.	Continued use of the Treasury's five-case model for appraising investment	<p>The recently updated and reviewed IDC manual makes clear reference to the fact that investment decisions are informed by evidence set out in a business case, and that business cases should use the Treasury recommended five-case model.</p> <p>In terms of continued use of the five-case model, the business case guidance has a clearly set out version history on the first page. This highlights where the guidance has been reviewed and amended over time. This suggests that it is a live document and is in continued use.</p> <p><i>Conclusion</i></p> <p>The business case guidance and templates are in line with Treasury's five-case model. Continued use of this is suggested through the regular maintenance and updating of these documents.</p>
d.	Review quality of decision making by Investment Decision Committee	<p>We reviewed a sample of minutes of the exec-level IDC meetings in 2019-20 with the Assistant Company Secretary.</p> <p>The minutes clearly note all proposed queries and objections to investments that are presented to the committee.</p> <p>The minutes we saw showed that different members of the committee are providing challenge and are engaged with the process. There were also some instances where the committee rejected a proposal based upon their queries and challenge. It was noted that this generally happens less now as the quality of the papers have improved.</p> <p><i>Conclusion</i></p> <p>The investment decision committee are clearly querying and challenging proposals they are presented with, and will reject a proposal if sufficient evidence or answers are not available at the time. All members of the committee are engaged and involved in this process.</p>

3.4 Evidence

	Test identified	Comments from 2019-20 testing
a.	Publication of full business cases for major schemes worth £50m or more following investment decisions	<p>To date no business cases have been published. Highways England have explained that the commercial sensitivity of the information within is a key factor, they also note that there is not a requirement for them to publish these business cases. Going forwards the company are not looking further into publishing business cases.</p> <p>DfT confirmed that neither they nor HE are pursuing publication, however recognise that there is still work to be done to improve how scheme information is communicated consistently.</p> <p><i>Conclusion</i></p> <p>HE should work with DfT to consider ways in which they can communicate public scheme information consistently going forwards.</p>
b.	Publication of post-opening project evaluations (POPEs) and associated analysis	<p>We commissioned Hyperion in 2019-20 to review how HE evaluates the benefits associated with its capital investment programme ('Reviewing Highways England's evaluation of its capital investment programme's benefits'³).</p> <p>This report covers the publication of POPEs, we have drawn our conclusion for this test from the report.</p> <p><i>Conclusion</i></p> <p>POPE reports contain a lot of useful information and should be published in a timely manner in order to maximise their value. Highways England should consider what steps it can reasonably take to improve the time taken between report completion and publication without compromising quality.</p>
c.	Support to the Monitor in carrying out its duties	<p>Highways England regularly provide the Monitor with information to enable it to carry out its duties. Each month a pack of executive level management information is provided which contains a performance dashboard, data pack and a summary performance report.</p>

³ <https://orr.gov.uk/annual-assessment-of-highways-england>

		<p>Each quarter further reports are also produced, including a capital investment portfolio report.</p> <p>The Monitor also receive additional information as and when it is requested.</p> <p><i>Conclusion</i></p> <p>Highways England support the Monitor in carrying out its duties through providing a number of regular reports</p>
d.	Six-monthly reviews of the development of Highways England's chief analyst's unit with the Department's analysts	<p>When the Chief Analyst's unit was developed it was rapidly growing and biannual reviews were initiated to assess the capability and capacity of the unit. Ensuring that value for money was appropriately considered in decision making. These biannual reviews ceased in 2018. This was because it was felt by DfT that the unit had reached sufficient capacity and capability that they were making appropriate value for money decisions. The biannual reviews were replaced by annual value for money capability reviews, reported to DfT's IPDC.</p> <p>In 2018 this review was undertaken by an external body, KPMG. The 2019 review was undertaken internally whilst also using the advice and expertise of an analyst from outside of Highways England to ensure there was external check and challenge.</p> <p>There were actions that resulted from KPMG's report that Highways England worked to address in 2019. Overall the review noted that an appropriate process was in place, and the unit had appropriate capability and capacity. However, it did note that there should be a plan for value for money improvement over time. In response to this review Highways England has developed the VFM improvement plan.</p> <p><i>Conclusion</i></p> <p>The biannual reviews have been revised to annual value for money capability reviews as the unit has matured. Highways England are continuing this practice and actively actioning any improvement points.</p>
e.	Review quality of evidence used in decision making	<p>Two consultancy projects were undertaken in 2019-20 which covered the quality of evidence used in decision making.</p> <p>We refer to the Ankura 'Review of RIS1 Major Scheme Scope Changes and Cost Impacts'⁴</p>

⁴ <https://orr.gov.uk/annual-assessment-of-highways-england>

		<p>And the Hyperion report 'Reviewing Highways England's evaluation of its capital investment programme's benefits'</p> <p><i>Conclusion</i></p> <p>The consistency and quality of information has improved in more recent investment committee papers, when compared to those prepared earlier in RP1. However, there are opportunities for further improvement to provide greater clarity and traceability of scope changes and associated cost impacts.</p> <p>Highways England has a well-established approach to evaluating the benefits delivered by major schemes through the POPE process. POPE reports contain a lot of useful information.</p>
--	--	--

4. Summary and Recommendations

Building on the findings of our previous reviews, the additional information provided and the conversations held this year to complete testing to cover the scope we identified in section 2, Highways England's procedures for investment decisions are clearly documented and adhered to.

Through our review we have identified some recommendations that we would encourage Highways England and DfT to give further thought to, with the aim of addressing these recommendations as the second road period begins.

	Test reference	Recommendation
1	3.3 B	There are a number of vacancies present in the CPM org structure, (seven vacancies of twenty-eight posts). Highways England should ensure that the number of vacancies does not negatively impact on the ability of the team to perform their duties. However, we note that this structure appears to be dated May 2019 so the number of vacancies is likely to have changed.
2	3.4	<p>Highways England should work with DfT to consider ways in which they can communicate public scheme information consistently, this should include;</p> <p>A – Scheme information during design and construction</p> <p>B – Post construction, including POPEs. POPE reports contain a lot of useful information and should be published in a timely manner in order to maximise their value. Highways England should consider what</p>

		steps it can reasonably take to improve the time taken between report completion and publication without compromising quality.
3	3.4 E	The consistency and quality of information has improved in more recent investment committee papers, when compared to those prepared earlier in RP1. However, there are opportunities for further improvement to provide greater clarity and traceability of scope changes and associated cost impacts.