

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 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 Department.

This report summarises the findings of our third review of Highways England's delegated expenditure controls undertaken between October 2018 and January 2019.

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.

In producing our previous reports on its delegated expenditure controls we engaged closely with Highways England and the Department for Transport to share our findings though did not seek formal agreement to the recommendations. This year, we have taken additional steps to ensure that the recommendations are agreed by all parties.

2. The scope of our review

The scope of this review was agreed with DfT and Highways England in September 2018. The agreed scope was largely to follow up the work that we undertook in 2017. We have:

1. Assessed Highways England's progress in addressing the recommendations made in our 2017 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.

2. Assessed any changes to relevant procedures since our 2017 review;
3. Revisited three areas of testing from our 2016 review.

3. Results

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

3.1 Follow up of recommendations in our previous review

Recommendations that were addressed in our previous review have not been revisited as part of 2018-19 testing.

	Issue identified in our 2016 report	Comments from 2017 testing	Comments from 2018 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 2017</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>	<p>The Chief Analyst's Unit has made significant progress in terms of resourcing. There are now only two vacancies out of 73 posts. This recommendation as identified in 2016 was focused only on resources (capacity); however, an external assurance review by KPMG has also stated that the directorate has "sufficient capability".</p> <p><i>Conclusion</i></p> <p>Highways England has achieved the planned capability that was previously provided by DfT.</p>
b.	Highways England should finalise the draft Subject Matter Advisor (SMA) guidance	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	Highways England's senior management team (its Executive team) has not directly endorsed the SMA guidance. The company

	Issue identified in our 2016 report	Comments from 2017 testing	Comments from 2018 testing
		<p>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>	<p>considers that the SMA guidance is finalised and choses to treat it as a live document to allow for flexibility so that critical updates can take place in a timely manner. As such, the document is reviewed on a quarterly basis under a process that is coordinated, managed and signed off by the Director of Strategic Finance</p> <p>Highways England report that as the processes are more firmly embedded, and the SMAs have gained more experience, the level of check and challenge by the SMAs has also increased.</p> <p><i>Conclusion</i></p> <p>We consider that Highways England's process for regular review and sign off by the Director of Strategic Finance does provide a suitable level of balance between flexibility and senior level oversight.</p>
c.	The quality of the financial, procurement and management cases supporting investment decisions	Our 2016 review found that the strategic and economic cases supporting investment decisions were comprehensive: however, the financial, procurement and	Overall, our sample demonstrated an improvement the maturity in the financial, commercial and

Issue identified in our 2016 report		Comments from 2017 testing	Comments from 2018 testing
	could be improved	<p>management cases of Highways England's Five-Case business model could be more comprehensive</p> <p>Our 2017 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>	<p>management cases from previous reviews.</p> <p>Furthermore, there is evidence that Highways England has increased the breadth of its business case review processes, and is actively engaging the subject matter advisor for each case early in the process.</p> <p>However, the key risks could be highlighted more prominently in the main body of the papers. Highways England recognises that there are further refinements to their business case development, which will be made as the process matures.</p> <p><i>Conclusion</i></p> <p>Highways England has improved the quality of the financial, commercial and management within its business cases, as a result of increased maturity and experience of the SMAs.</p> <p>Our previous concern has now been addressed.</p>
d.1	Mandating completion of the business case checklist would provide a further layer	Highways England's business case guidance includes a checklist of areas to be completed before and after	Highways England has not mandated completion of the checklist for the reasons

Issue identified in our 2016 report	Comments from 2017 testing	Comments from 2018 testing
<p>of assurance that all required elements of a business case have been completed</p>	<p>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 2017 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 the checklist. As such, we consider that a mandatory checklist would remain a useful additional layer of assurance</p>	<p>given in 2017 (as left). The document is still promoted as "best practice" to complete and save in their online document sharing system as part of the audit trail. However, our testing showed that in a sample of two business cases the checklist had not been completed or saved as instructed.</p> <p><i>Conclusion</i></p> <p>We recognise through our testing of 'c' that the quality of business cases has improved. This is, in part, to the embedding of the management case subject management advisers (SMA) whose role is to challenge the business case during its development and ensure that it is created in line with HMT 5-part business case policy.</p> <p>The insertion of 'best practice' on the checklist document indicates a need for the project manager to incorporate during the development of their business case. We remain of the view the checklist has value as a simple aid to the company in governance of the expected content</p>

	Issue identified in our 2016 report	Comments from 2017 testing	Comments from 2018 testing
			<p>of the business case, though not its quality. We note Highways England's concerns that mandating a checklist approach encourages the wrong behaviour to be adopted by project managers. As the company has an appropriate process in place through the management case SMA to ensure the quality of business cases, which will improve as it embeds further, we are satisfied that the need to mandate the checklist is no longer required.</p>
g.	<p>Post-Opening Project Evaluations (POPEs) could be published in a more timely manner</p>	<p>It has been a long standing practice for POPEs to be produced one year and five years after highways 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 2017 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>To date no POPEs have been published. POPEs have been produced for some schemes that opened for traffic in 2015-16, others are now overdue. Highways England report that this is in part due to resource issues following the delivery of POPEs having been brought in-house.</p> <p><i>Conclusion</i></p> <p>Highways England continues to be unable to publish POPEs in a timely way. The company should ensure the backlog of POPE reports is addressed and any obstacles to publication are resolved</p>

Issue identified in our 2016 report		Comments from 2017 testing	Comments from 2018 testing
		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.	with DfT.
h.	Business cases and statements of prioritisation have not been published	<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>	<p>To date no business case or statements of prioritisation have been produced. The company has explained that commercial sensitivity has been a factor as well as a lack of clarity from both parties as to the meaning behind the original commitment.</p> <p><i>Conclusions</i></p> <p>We recommend that Highways England makes it a priority to work with DfT to agree how transparency of business cases and statements of prioritisation can be improved.</p>

4. New processes

No new processes have been introduced to the IDC process since our last review. Highways England has worked to more fully embed the current IDC process, and the system has continued to improve over time as staff acquire more knowledge and experience.

5. Revisit sample of items from 2016 review

As mentioned in our methodology above, we decided to re-test three areas from our 2016 review, to test for completeness and consistency.

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

Testing area in our 2016 report	Comments from 2016 testing	Comments from 2018 testing
Representation of Chief Analyst and expertise on the Investment Decision Committee	Highways England maintains an attendance log for each Investment Decision Committee meeting. The Chief Analyst has attended each meeting following his recruitment through to the end of March 2016	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.
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	DfT's shareholder team, client team and ORR receive the same monthly data pack as is provided to Highways England's executive team. In addition, we have published monitoring reporting guidelines in December 2015, which set out information about Highways England's performance that the company is required to publish on an annual basis. Highways England has shared its first draft of these monitoring reporting statements with us and is due to publish them in July 2016.	Highways England has continued to provide monthly and quarterly reports to ORR and DfT consistent with that provided to its executive team. We published revised monitoring reporting guidelines in May 2018. Highways England has produced annual performance monitoring statements in line with these guidelines in July 2016, July 2017 and July 2018.
Establish an Investment	Highways England has	This framework is still in

Testing area in our 2016 report	Comments from 2016 testing	Comments from 2018 testing
Control Framework, with appropriate mechanisms for approving investment	established a documented investment control framework (the IDC framework) with clear mechanisms for approving investment decisions.	place and HE report that they have continued to update and improve the process over the last two years.

6. Summary

Building on the findings of our previous two reviews 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.

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..

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

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

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.



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