

Guidance to Local Authorities seeking DfT funding for transport Major Schemes

5 Approval Process

5.1 Proposed new approval system

5.1.1 We are reviewing the formal approval stages which will apply to major scheme decisions and clarifying the status of each. We are considering what supporting information is required at each stage, under what conditions the approvals are given and what each approval signifies.

5.1.2 The biggest proposed change to the current system is that **Full Approval** will now not be given until procurement has taken place and prices and risk allocation are known. The current system, in which the costs of a scheme could still increase (in some cases almost double) once funding approval has already been granted is unsatisfactory and compromises the Department's and authorities' ability to achieve value for money and to exercise responsible management of public funds.

5.1.3 However we recognise that this change would add to the financial outlay required by authorities before there is a commitment to funding. We are therefore proposing a new intermediate approval stage at the point at which Full Approval would previously have taken place. This would be known as **Conditional Approval** and will effectively be a commitment to funding, subject to the cost estimates and risks remaining unchanged and the scheme being ready to commence within a certain period. See section 5.3.12 for more detail.

5.1.4 We intend to change the name of Provisional Approval to **Programme Entry**, though the definition remains essentially the same; that the Department would expect to fund a scheme subject to certain conditions (see 5.2.8).

5.1.5 We intend to decouple the submission of major scheme bids from the submission of Annual Progress Reports. In future years we will accept scheme bids at any time of year and would encourage authorities to submit bids as soon as they are ready for DfT's consideration. The intention will still be to make approval decisions on new bids in batches, although this will not necessarily remain linked to the APR or settlement timetable. The process for future years will be clarified in the final guidance, in the light of the Government's consideration of the responses to the consultation on regional priority setting. Under the proposals for involving regions in the decision-making process, we would expect in future years, to take account of advice from regions on the relative priority of the scheme alongside other transport proposals.

5.1.6 In order to be considered for approval in the Local Transport settlement in November/December Major Scheme bids must be received by the end of July 2005. Bids can however be submitted at any time, prior to the end of July, independently of the APR. Earlier submission will give the Department more time to consider the bid before decisions are taken. We will not be asking regional bodies to identify priorities for the 2005 settlement.

5.1.7 In the 2004 settlement, a number of schemes were 'remitted to the regions' for advice on their priority. Local authorities would need a strong case for the Department to consider any of these schemes before the arrangements for consulting the regions are in place.

5.1.8 Before Programme Entry is granted we will require a full Major Scheme Business Case as described in Chapter 2. In addition to the scheme appraisal, more information on the project management and delivery arrangements for the scheme will be required. Both delivery and appraisal information will need to be updated and refreshed as necessary prior to each approval stage

5.1.9 The level of information required at each stage, and the degree of scrutiny the Department applies, will be proportionate to the overall cost and risk of the scheme.

5.1.10 Bids for schemes with a gross cost of over £40m must include a completed Project Assessment Spreadsheet (PAS) (see 4.3.4) and evidence that a Gateway Review has been carried out, if the risk score indicates that one is required. The Department reserves the right to challenge the entries made in the PAS if it feels the level of risk may have been scored too low, and to require a Gateway Review to be carried out if appropriate. Additionally the Department may ask for a PAS (and a Gateway Review if necessary) in respect of bids below £40m if there is reason to believe that the scheme carries an unusually high level of risk.

5.1.11 For schemes where the Gateway Process is mandatory (see 4.3.5) the Gateway Review required before each approval stage is as follows:-

Gateway Review stage	Approval stage
Stage 1: Business Justification	Programme Entry
Stage 2: Procurement Strategy	Conditional approval
Stage 3: Investment Decision	Full Approval
Stage 4: Readiness for Service	Before final scheme payment

5.2 Programme Entry

When can an authority apply for Programme Entry?

5.2.1 An authority can submit a scheme for Programme Entry at any time once a Major Scheme Business Case has been prepared (see chapter 2) and a Gateway Review carried out, if appropriate (see section 4.3).

5.2.2 We would, in most circumstances, expect major scheme bids submitted in the second LTP period to have been referenced in the LTP (see 1.2.3). We would not expect authorities to submit a fully worked up scheme bid without having first had some preliminary discussion with DfT/Government Office on the feasibility of the proposal, including the submission of draft bids for discussion prior to formal submission.

5.2.3 In the past some authorities have submitted major scheme bids knowing that the proposal is not fully developed, in order to get their 'foot in the door'. Submitting speculative bids of this kind does not gain any advantage over other schemes in development, and does not mean they attract any more attention from the Department. Scheme bids which do not include all the required information as set out in the guidance may be rejected. We will discontinue the previous designations of Work In Progress and Super Work In Progress. These are not particularly helpful, and do not confer any special status over schemes that may be in a similar stage of development, but for which bids have not yet been submitted.

What information does an Authority have to submit at this stage?

5.2.4 In order to obtain Programme Entry an authority will need to submit a Major Scheme Business Case to the Department which covers all the aspects described in Chapter 2. In particular, it will include:

- A value for money appraisal in line with the latest WebTAG guidance and structured as per para 3.2.1.
- project management information covering project milestones, risks, stakeholder management, governance arrangements. There is no prescribed format for this information but the Project Initiation Document (as defined in PRINCE2) or equivalent would meet these requirements.

When will Programme Entry be granted?

5.2.5 Approval will be granted once the Department is reasonably satisfied that the scheme meets all the following criteria:

- value for money
- affordable within the available budget, with a likely start within the next three years. (In future years under the proposals for Regional Funding Allocations, this is likely to mean that the scheme is identified as a high priority within the regional funding allocation)
- deliverable by the authority to time and budget

5.2.6 The Department expects to make an annual announcement on which schemes it is accepting into the programme. For 2005 this will be as part of the Local Transport settlement, in November or December. To be considered for Programme Entry bids must be received before the end of July. In some cases, however, where there are appraisal or other issues still to be resolved at the time of the settlement, a decision will be made as soon as possible afterwards. In the case of some higher value schemes the Department may take decisions outside the usual annual cycle.

5.2.7 For schemes subject to Gateway Review (see section 4.3), Programme Entry will only be granted once a Gateway 1 Review has been completed. Confirmation that a review has taken place must be provided by means of a statement from the authority's Section 151 Officer, who must also confirm that the necessary remedial action has been taken in respect of any 'Red' recommendations.

What does Programme Entry signify?

5.2.8 Programme Entry means that the Department would expect to fund the scheme subject to:-

- affordability (including by contributors other than DfT)
- any necessary statutory powers being obtained
- there being no significant changes to costs, scheme design or expected benefits
- any other conditions specific to the scheme

5.2.9 Programme Entry will, like Provisional Approval, confer no guarantee of funding, or its timing, but it is designed to give authorities the confidence to proceed with the development of the scheme and in particular to apply for the necessary statutory powers.

5.2.10 A scheme will not remain in the Programme indefinitely. At the time of Programme Entry the Department will agree with the promoting authority on a case by case basis the steps that need to be taken for the next stage of approval, and what conditions may apply. A deadline will be agreed for the submission of the scheme for the next approval stage. A scheme will exit the Programme should this deadline not be met or after a maximum of four years, except in exceptional cases.

5.2.11 The Department reserves the right to remove a scheme from the Programme before a scheme is submitted for Conditional or Full Approval in the event of an increase in estimated costs which the Department is unwilling to fund, for which there is no realistic prospect of alternative funding, and which cannot be resolved by adjusting the scope of the scheme; or where the scope or design of the scheme, or the scheme benefits, change substantially.

5.2.12 Authorities are free to resubmit schemes which have lapsed from or been removed from the Programme, and these will be treated as new bids. However the Department will need to be assured that the problems or delays which led to the scheme's exit from the programme have been addressed and resolved.

5.3 Conditional Approval

5.3.1 This is an intermediate stage which would normally occur following the granting of statutory powers but before a procurement exercise has taken place - i.e. the point at which Full Approval would often be sought at present.

5.3.2 For some schemes this interim stage may not be required, if its natural point would be very close to Provisional or Full approval. Examples may include schemes which require few or no statutory powers. For schemes requiring powers but no procurement, or where authorities are prepared to initiate the procurement process at their own risk while powers are still being sought, a scheme may proceed directly from Programme Entry to Full Approval. An example may be where there is Early Contractor Involvement. As at present there may even be some schemes that proceed straight to Full Approval if neither powers nor procurement are required.

When can an authority apply for Conditional Approval?

5.3.3 An application can be made when any necessary statutory powers have been obtained, and when the scheme appraisal and project information have been updated as necessary to reflect the latest position.

What does an Authority have to submit at this stage?

5.3.4 In order to obtain Conditional Approval authorities will need to provide an update on the five aspects of their original Major Scheme Business Case.

5.3.5 This includes a revised appraisal. The extent of the revisions required will depend on the time elapsed since Programme Entry, and the extent to which the scheme's design or cost estimates have changed. The requirement for an updated appraisal will apply only to the preferred option except in cases where there has been a significant cost increase. The detailed requirements for updated appraisal information can be found in Annex B.

5.3.6 As part of the delivery aspect, an updated risk register and project plan with milestones should be provided.

5.3.7 The Department will at this stage require details of the commercial aspects and the procurement strategy, and may request specific related documents (e.g. draft specifications, OJEU notices, draft contract documents, tender evaluation criteria).

5.3.8 For some schemes, usually the largest ones, the Department will require details of the authority's plans for monitoring and evaluation of the scheme.

When will Conditional Approval be granted?

5.3.9 Conditional Approval will be given when the Department is satisfied that

- the necessary powers have been obtained
- the scheme can be afforded on current cost estimates
- the updated scheme appraisal remains sound, in line with the requirements set out in Annex B
- the promoter has conducted adequate supplier assessment and market intelligence and has a robust procurement strategy in place
- the scheme remains deliverable by the authority to time and budget
- the arrangements for evaluation and monitoring are satisfactory (in cases where this is a requirement at this stage)

5.3.10 Conditional Approval may be granted at any time in the year and is not linked to annual cycles.

5.3.11 For schemes subject to Gateway Review (see section 4.3), Conditional Approval will only be given upon confirmation by the authority's Section 151 officer that a Gateway 2 Review has been completed and the necessary remedial action has been taken in respect of any 'Red' recommendations.

What does Conditional Approval signify?

5.3.12 Conditional Approval is a firm undertaking by the Department that Full Approval will be granted subject to a small and limited number of conditions, typically that:-

- the costs of the scheme (or the required DfT contribution) do not increase following the tender process
- the allocation and scale of financial risks does not change
- the tender prices and other scheme costs are firm and fixed for the life of the project or are as secured as is reasonably possible
- the scheme will be submitted for Full Approval within a certain period agreed between the Department and the authority.

5.3.13 In applying conditions to particular schemes the Department will consider and take into account on a case by case basis the most appropriate balance of financial risks between the parties involved.

5.3.14 If the conditions are not met the Department will reserve the right to revoke Conditional Approval. Depending on the particular circumstances the scheme may either revert to Programme Entry status or be removed from the Programme altogether.

5.4 Full Approval

5.4.1 In a change from current practice we are proposing that Full Approval is only given once firm prices are available, normally when procurement has been completed.

When can an authority apply for Full Approval?

5.4.2 An authority may apply for Full Approval once:-

- the necessary statutory powers have been obtained *and*;
- tenders have been received with firm prices. Normally this will mean a preferred bidder has been selected, and any post tender negotiations completed
- the scheme appraisal has been updated to reflect the latest information on expected costs and benefits.

What does an Authority have to submit at this stage?

5.4.3 In order to obtain Full Approval authorities will need to provide a further update on the five aspects of their original bid.

5.4.4 This includes a revised scheme appraisal. The extent of the revisions required will depend on the time elapsed since Conditional Approval and the extent to which the schemes' design or cost estimates have changed. If there have been no such changes and Conditional Approval was relatively recent, then the additional information required at this stage will be minimal. The detailed requirements for updated appraisal information can be found in Annex B.

5.4.5 On the commercial aspects, authorities should provide full details of the selected bidder's offer together with any conditions that apply. This should be the firm and final offer if post tender negotiations have taken place. In certain cases the Department may additionally request a copy of the selected supplier's bid document, details of other bids received, or the authority's tender evaluation documentation.

5.4.6 As part of the delivery aspect, an updated risk register and project plan with milestones should be provided.

5.4.7 The Department will require details of the evaluation and monitoring proposed by the authority at this stage if not before.

When will Full Approval be given?

5.4.8 Full Approval will be given when the Department is satisfied

- that the costs of the scheme are reasonably secured and that the authority has taken adequate steps to protect itself from the risk of increased costs
- that the balance of risks and liabilities is satisfactory, is clearly understood and offers adequate protection for the public sector against potential increases in costs
- that adequate contract management arrangements are in place to ensure delivery to timetable and budget, including the necessary resource for contract management within the authority.

5.4.9 The Department will make every effort to complete its consideration of bids for full approval before the expiry of tender prices. However the Department will not be responsible for any delays due to the promoting authority's failure to provide the necessary assurances set out at 5.4.8 above.

5.4.10 Full Approval may be granted at any time in the year and is not linked to annual Local Transport settlements.

5.4.11 For schemes subject to Gateway Review (see section 4.3), Full Approval will only be given upon confirmation by the authority's Section 151 officer that a Gateway 3 Review has been completed and that the necessary remedial action has been taken in respect of any 'Red' recommendations.

What does Full Approval signify?

5.4.12 Full Approval is the Departments confirmation that funds are available and that work can commence.

5.4.13 The availability of funds is conditional upon the scheme proceeding without undue delay. If there is more than two years delay to the delivery of a Fully Approved scheme the Department reserves the right to revoke Full Approval.

5.4.14 If following Full Approval it becomes clear that the scheme cannot be completed within the available funding the authority must notify the Department and stop incurring any further liabilities immediately.

5.5 The Department's role in the approval process

5.5.1 This guidance is aimed at helping local authorities promote schemes that are appropriate for DfT funding. It is the responsibility of the scheme promoter to ensure that sufficient resources and expertise are available to produce the appraisal and other information required, and to ensure that the bid documentation is complete.

5.5.2 Government offices and the Department will be happy to discuss the development of schemes, especially at the early stages, to help guide authorities towards schemes that have the best chance of acceptance.

5.5.3 In addition, the Department aims to provide up-to-date and clear guidance on the requirements and criteria for selection of schemes. The guidance is updated frequently, as new and better evidence come to light, so authorities should check WebTAG to ensure they are applying the most recent advice. During the development of a bid, the Department aims to provide advice on any proposals for non-standard approaches to producing the required evidence and appraisal. The Department will also advise on areas where the guidance may be open to interpretation.

5.5.4 Once a scheme bid has been formally submitted to the Department, Ministers require advice on the robustness of the bid and the value for money judgement. Priority is given to bids that are complete in terms of the appraisal and other information required. Officials will seek to clarify any outstanding issues with promoters in advance of deadlines for ministerial decision-making. Nevertheless bids with significant omissions may be rejected.

5.5.5 At each approval stage, the Department will review the documents supplied and may ask for clarification or supporting information as required. For higher value projects (e.g. £25-30m and above) the Department may employ consultants to examine a particular aspect of the business case such as traffic modelling, costs and risk, or financing. The Department or its consultants may also visit the authority to interview key project staff. In most cases this visit would normally be confined to a single day and would be conducted by one or two people.

5.5.6 The level of scrutiny the Department applies at the Conditional and Full Approval stages will generally be reduced if only a relatively short time has elapsed since previous approval stages.