

**Date: 7 June 2018**

**Item: Independent Investment Programme Advisory Group –  
Quarterly Report**

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**This paper will be considered in public**

**1 Summary**

- 1.1 This report sets out the advice of the Independent Investment Programme Advisory Group (IIPAG) on the strategic and systemic issues and risks that it has noted in its reviews of TfL's Investment Programme. It also sets out IIPAG's views on the effectiveness of the first and second lines of project and programme assurance.
- 1.2 The same report will also be submitted to the Programmes and Investment Committee meeting scheduled for 3 July 2018.

**2 Recommendation**

- 2.1 **The Committee is asked to note the report and approve the proposed actions for the Independent Investment Programme Advisory Group for the next quarter.**

**3 Background**

- 3.1 New Terms of Reference for IIPAG were approved at the TfL Board on 30 January 2018.
- 3.2 These Terms of Reference include a requirement for IIPAG to produce quarterly reports of its advice on strategic and systemic issues, logs of progress on actions and recommendations, and the effectiveness of the first and second lines of project and programme assurance for the Audit and Assurance Committee.
- 3.3 This is the first such report and, given that IIPAG has not reported on such issues since its Annual Report for 2016/17, this report notes and comments upon issues since April 2017.

**4 Strategic and Systemic Risks and Issues**

**Update on previously identified systemic issues**

- 4.1 In its 2016/17 Annual Report IIPAG highlighted four systemic issues. These were:
  - (a) Telecoms;
  - (b) Procurement and Commercial;

(c) Transformation Programme; and

(d) Governance.

4.2 These systemic issues are addressed below.

*Telecoms:*

4.3 TfL is a major user of telecommunications and spends hundreds of millions of pounds each year. Some of this is spent on building its own telecoms infrastructure, and some of it on buying services from others.

4.4 IIPAG first reviewed telecoms provision at TfL in 2013, and found major problems: serious financial inefficiency; lack of strategic direction; lack of co-ordination and duplication of effort; scale and commercial exploitation opportunities not realised; unnecessary proliferation of new networks, etc. This fragmented approach was apparently the result of the organisational history of TfL, and its senior management had higher priorities to deal with.

4.5 IIPAG has kept telecoms under review over the last five years and has produced a series of papers and recommendations on the subject. Some of the issues have been recognised at TfL, and there has been some progress. Progress has been made on: organisational improvements, a new (2016) telecoms networks strategy and in 2017 the re-letting of a major telecoms services contract with suitable flexibility for the future. However, the fundamental problems remain.

4.6 TfL has still not set up an organisation with the right capabilities to manage and optimise the mix of owned telecoms infrastructure and bought-in telecoms services that is necessary to run an efficient operation, and to facilitate commercial development. In 2018, TfL is still building, and planning to build, multiple new telecoms networks in isolation and apparently without regard to the significant unnecessary cost that this entails, for example on the Four Lines Modernisation, Deep Tube Upgrade, Emergency Services Network provision and Connect.

4.7 This is a very disappointing situation, and even now IIPAG has been advised that the issue is not of sufficient importance to be given the resources that are needed. Nonetheless, IIPAG believes that significant improvement must take place and will continue to encourage TfL to make the changes that are so obviously needed.

*Procurement and Commercial:*

4.8 IIPAG has now not undertaken a systematic review of TfL's procurement strategy and commercial performance for two years due to there being insufficient members of IIPAG with sufficient time available to perform this task (2017/18), combined with budgetary constraints (2016/17).

4.9 In the past IIPAG has been critical of TfL's commercial approach. While IIPAG has not undertaken a systematic review of this topic, IIPAG considers that there are promising signs. New staff have been appointed who have a good knowledge and experience of best practices in commercial and procurement issues. This

appears to be driving better behaviours and an approach more consistently focussed on commercial outcomes.

*Transformation Programme:*

- 4.10 IIPAG has noted significant changes and reductions in personnel during its Integrated Assurance Reviews, which should reduce TfL's staff costs. In some cases this change has caused delays or increased project costs. While most projects appear to have sufficient staff to undertake the works themselves there are some strains in central functions such as planning, engineering and commercial, and IIPAG has made a number of recommendations on resources in its recent reviews. This issue has been exacerbated in the past 12 months by the impact of IR35 on the availability and costs of specialist resources in areas such as engineering and welding.
- 4.11 As part of its work to improve Integrated Assurance Programmes (IAPs) (see paragraph 5.6) IIPAG will review IAPs to advise whether they include sufficient focus on resources and the risks associated with resources though this Transformation.

*Governance:*

- 4.12 In its 2016/17 Annual Report, IIPAG set out its initial view of the first sub-programme reviews that had taken place. IIPAG noted that: the reviews were insufficient without the supporting Integrated Assurance Reviews (IAR); sub-programme reviews are an intensive use of IIPAG resource; and the level of scrutiny that sub-programmes received from the Programmes and Investment Committee (PIC) should be reviewed to ensure that it was sufficient.
- 4.13 IIPAG has now been involved in 19 sub-programme reviews. Its initial views have been confirmed in the past year.
- 4.14 On the first two points, the amount of effort that IIPAG has spent on sub programme reviews, and the supporting IARs that give it sufficient knowledge of the sub-programmes, has increased from 62 per cent of its time in 2016/17 to 81 per cent of its time in 2017/18. These amounts exclude IIPAG's attendance at the Boards at which its recommendations are discussed. As a result, given the limited time that IIPAG members have available, the amount of time spent on issues other than IARs and sub-programme reviews has reduced greatly. IIPAG would hope that the appointment of a new Chair and Members of IIPAG, together with the addition of a Panel of Experts, will give IIPAG the resources to allow a more proactive approach to understanding and advising on systemic and strategic issues.
- 4.15 IIPAG has discussed the level of scrutiny of the sub-programmes with the Chair of the Programmes and Investment Committee. IIPAG understands that the Committee considers that the level of detail included in the sub-programme reviews is sufficient, provided that the IAPs that support these are robust. IIPAG has recently examined these IAPs in greater detail and its views are set out in Section 5.
- 4.16 In addition, IIPAG understands that the governance of projects in TfL is currently under review. IIPAG would like to contribute to this review.

## **Notable and/or Issues identified since April 2017**

- 4.17 TfL's finances are under greater pressure than at any time since IIPAG was formed in 2010. The business is being asked to reduce costs significantly while delivering significant investments in London's infrastructure. The focus of these investments is also changing, with a greater emphasis on air-quality, healthy streets and accessibility.
- 4.18 This change in emphasis at a time of constrained finances is introducing new risks to TfL. IIPAG has noted a number of instances where there appears to be a reluctance to face up to cost increases when projects are underway, or where funds are simply not available to deliver the preferred option and a decision to halt work is delayed and additional costs incurred. In some cases, Estimated Final Costs have been set at the available budget for projects where most acknowledge that this is a best, rather than P50, view of the out-turn cost. IIPAG has highlighted these issues in its project and sub-programme recommendations.
- 4.19 TfL therefore runs the risk that it commits to projects that it cannot deliver within its available funds, and that it will have to pause or stop projects when they are underway. This is clearly not the most efficient way to balance TfL's portfolio of projects.
- 4.20 IIPAG will continue to draw attention to projects and programmes where it considers the EFC to be unduly optimistic.

### **Suggested areas for attention**

- 4.21 In the next quarter IIPAG will:
- (a) continue to encourage TfL to make the changes that are needed for telecoms;
  - (b) review IAPs to advise whether they include sufficient focus on resources and the risks associated with resources though this Transformation (see also para 5.6); and
  - (c) continue to draw attention to projects and programmes where it considers the EFC to be unduly optimistic.

## **5 Effectiveness of the First and Second Lines of Project and Programme Assurance**

- 5.1 As noted in paragraph 4.14, the Programmes and Investment Committee considers the IAPs important in giving assurance as to the delivery of sub-programmes between the reviews. With this in mind, IIPAG has reviewed the IAPs for the four most recently completed sub-programme reviews to understand to what extent they meet IIPAG's expectations.
- 5.2 Overall, IIPAG would describe the current IAPs, and associated process more as "continuous monitoring" rather than "continuous assurance".
- 5.3 As would be expected, all four follow the same format. However, the IAPs are more similar than IIPAG would expect for sub-programmes with very different characteristics. For example, Technology and Data has very different risks and

assurance requirements to Major Stations yet the IAPs are very similar. In most cases the IAPs comprise mainly contact points for second and third line assurance, plus dates for main assurance reviews for the coming year.

- 5.4 IIPAG would expect to see more clarity on the “deliverables” from continuous assurance interventions. For example, while the IAPs set out second line assurance attendance at governance meetings it is not clear what should result from this attendance, how any output is reviewed, the process for escalating issues or the process for reviewing the effectiveness of the continuous assurance process itself. While IIPAG knows, from its discussions with second line assurance, that processes are in place for much of this, the process should be more explicit and clear to ensure consistency of approach across the various projects and programmes.
- 5.5 Overall, IIPAG believes that efforts to improve the IAPs should be given greater emphasis, such that they are more in line with best practice. For example, the approach to following up on actions required as a result of any governance process or IAR type interventions should be set out, including how such follow up would be factored into future continuous assurance.
- 5.6 IIPAG will work with the second line of assurance in developing improved IAPs from the forthcoming sub-programme reviews for the 3 July 2018 meeting of the Programmes and Investment Committee.
- 5.7 At present, IIPAG does not directly examine the first line of assurance, but will continue to identify gaps as they appear during IARs. In the coming quarter IIPAG will consider what steps it should take to better understand and advise upon the first line of assurance.

## **6 Reviews and Actions**

- 6.1 A list of the reviews undertaken by IIPAG from April 2017 to May 2018 is included at Appendix 1. A total of 19 sub-programme reviews, 33 IARs (including two Targeted Reviews) and three IIPAG Interim reviews have been undertaken. For all of these reviews an IIPAG report is prepared that sets out IIPAG’s findings and recommendations.
- 6.2 In almost all cases IIPAG’s report is presented to the relevant Programme/Portfolio Board and/or the Programmes and Investment Committee. In a small number of cases the issues that IIPAG (and TfL Assurance) highlights are sufficiently serious that the Authority request is delayed. This allows TfL to take actions to resolve the issues prior to any approval of Authority being granted.
- 6.3 Second line assurance is now tracking the recommendations that it, and IIPAG, make. A total of 123 IIPAG recommendations are included in this tracker. Of these, 72 are noted as closed, a further 26 are not yet due for completion (of which four do not have a date assigned at present) with the remaining 25 being overdue. IIPAG is currently reviewing these classifications to ensure that it is clear whether TfL has accepted (or rejected) IIPAG’s recommendations, that actions are closed to its satisfaction and to understand why recommendations are overdue. In particular, IIPAG will assess the evidence that recommendations are fully addressed.

6.4 In future quarterly reports IIPAG will set out trends in the classification of these actions and will highlight actions that are not accepted or that are overdue.

**List of appendices to this report:**

Appendix 1 – Reviews undertaken

**List of Background Papers:**

None

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## Appendix 1 – Reviews undertaken April 2017 to 21 May 2018

| Project  | Stage                             |
|--|-----------------------------------|
| Northern Line Upgrade 2                            | Option & Contract Award IAR       |
| Application Hosting Project                        | Commercial IAR                    |
| World Class Capacity (WCC)                         | Sub Programme Review              |
| Selective Catalytic Conversion (SCC)               | Option IAR                        |
| LU Infrastructure                                  | Sub Programme Review              |
| LU Stations  | Sub Programme Review              |
| City Planning                                      | Sub Programme Review              |
| Surface Assets                                     | Sub Programme Review              |
| Emergency Services Network (ESN)                   | Interim Review & Option Stage IAR |
| Deep Tube Upgrade Programme                        | Signalling Procurement            |
| Rotherhithe to Canary Wharf (R2CW)                 | Option IAR                        |
| Signalling & Signalling Control Systems            | Sub Programme Review              |
| DLR Rolling Stock Replacement                      | Pre-Tender TAR                    |
| Wandsworth Town Centre Gyrotory Removal            | TAR                               |
| Cycle Superhighway (CSH) 9                         | Option IAR                        |
| CSH 11   | Option IAR                        |
| LU Major Stations                                  | Sub Programme Review              |
| Air Quality & Environment                          | Sub Programme Review              |
| CSH 10   | Option IAR                        |
| Crossrail 2  | Targeted Assurance Review (TAR)   |
| Emergency Services Network (ESN)                   | TAR                               |
| New Coach Facilities for London (NCFL)             | Hybrid IAR                        |
| Brent Cross Cricklewood                            | Pre-Tender IAR                    |
| Camden Town Station Capacity Upgrade               | Concept Design IAR                |
| Oxford Street Pedestrianisation                    | Option IAR                        |
| Finsbury Park Step Free Access & Development Works | Interim IAR                       |
| Northern Line Extension                            | Sub Programme Review              |
| Network Access & WAN (Telecoms) Services           | Award IAR                         |
| Track & Civils                                     | Sub Programme Review              |
| Public Transport                                   | Sub Programme Review              |
| Accessibility Programme                            | Interim IAR                       |
| Surface Intelligent Transport Systems (SITS)       | Contract Award IAR                |
| Tech & Data Sub Programme Review                   | Sub Programme Review              |
| Barking Riverside Extension                        | Sub Programme Review              |
| Rolling Stock Renewals                             | Sub Programme Review              |
| CLIP (Central Line Improvement Programme)          | Annual IAR                        |
| LU Major Stations                                  | Sub Programme Review              |
| Crossrail 2  | Commercial IAR                    |
| London Underground Track                           | Sub Programme Review              |
| Surface Assets                                     | Sub Programme Review              |
| CSH 11 (Update)                                    | Option IAR                        |
| CSH 10   | Option IAR                        |
| PICU   | IIPAG Interim Review              |
| Healthy Streets                                    | Sub Programme Review              |
| 4LM  | IIPAG Interim Review              |
| Crossrail Yellow Plant                             | IIPAG Interim Review              |
| Oxford Street Pedestrianisation                    | Contract Award IAR                |
| Bank Station                                       | Interim IAR                       |
| Silvertown Tunnel                                  | Sub Programme Review              |
| ULEZ   | Contract Award IAR                |
| Mini Hollands                                      | Annual IAR                        |
| Cycling – Future Routes                            | Initiation IAR                    |
| Deep Tube Rolling Stock                            | Contract Award IAR                |
| Fiveways Project                                   | Option IAR                        |
| Camden Town Station Capacity Upgrade               | Concept IAR                       |