

Finance and Policy Special Purpose Sub-Committee

Date: 20 August 2014

Item 4: Assurance and Approval Processes for Investment Projects and Programmes

This paper will be considered in public.

1 Summary

- 1.1 At its meeting on 17 July 2014, the Finance and Policy Committee considered papers on the Lessons Learnt Review of the Sub-Surface Upgrade Programme (SUP) Automatic Train Control contract, and the Annual Report of the Independent Investment Programme Advisory Group (IIPAG). Both papers made reference to the processes employed by TfL in assuring investment projects, and both made recommendations to strengthen these. Having discussed these papers it was agreed to establish a Sub-Committee to review the assurance and approvals processes for investment projects and programmes.
- 1.2 This paper informs the Sub-Committee of the existing assurance and approvals processes applicable to investment projects and programmes and how they compare with similar organisations. This paper asks the Sub-Committee to consider the adequacy of these processes and how they might be improved.
- 1.3 In addition to the processes covered in this paper, additional quality, technical and commercial assurance processes exist in TfL and are applied at project level throughout the life of the project. These additional assurance processes are not covered in this paper, as this paper is intended to address assurance leading to project and programme approvals.

2 Recommendation

- 2.1 **The Sub-Committee is asked to consider both the adequacy of the existing assurance and approvals processes (applicable to investment projects and programmes) and how they might be improved.**

3 The Existing Assurance Process

- 3.1 Project assurance is provided at three levels (sometimes referred to as lines of defence): internal, Programme Management Office (PMO) and external.

Internal assurance

- 3.2 This first level of assurance is provided by the delivery organisation. Typically this is provided through Pathway (TfL's project management methodology) project stage gates and/or peer reviews staffed by the sponsor and delivery personnel either from within the project or from a peer project. Underlying these stage gates are a number of assurance activities conducted by both TfL and the suppliers and include activities such as design reviews, safety assessments, risk reviews, commercial assessments, estimate validation, material testing, site inspections and product testing. The number

and timings of the stage gates are established by the delivery organisation, based on guidance in Pathway, and informed by a characterisation tool that considers such things as scale, complexity, novelty, project team experience and the strategic importance of the project. A number of Products are required to be completed to provide evidence at the stage gate that the project is fit to proceed to the next stage. Products are outputs that are signed off by authorised individuals, and include such documents as project execution plans, risk management plans, project estimates and design compliance certificates.

PMO assurance

- 3.3 This second level of assurance is provided by the PMO, it provides confidence to those bodies at whose meetings approvals are given, e.g. Rail and Underground Board, Surface Transport Board, Finance and Policy Committee and the Board. The PMO is part of TfL but is not accountable for delivery. These reviews are typically Integrated Assurance Reviews (IAR), staffed by a combination of PMO staff, consultant external experts (EE) or peer groups from outside the delivery organisation. The current PMO Assurance team comprises six review managers, with a mixed range of project delivery experience. Their roles (as designed under the Horizon Change Programme) are to manage the assurance process through the Pathway IAR process. The EEs are selected on the basis of their relevant experience and suitability to the project under review. Approximately 85 per cent of the IAR reviews carried out per year, in the region of 120, are conducted using consultant EEs.
- 3.4 Each review is covered by a Terms of Reference that sets the scope and the brief to the EE, who is procured from a TfL consultancy framework. The Terms of Reference is based on the Pathway IAR Lines of Enquiry, aimed at generating a comprehensive review, namely:
- (a) strategic objectives and scope;
 - (b) governance and stakeholders;
 - (c) funding and cost;
 - (d) resources;
 - (e) procurement and commercial;
 - (f) legal and consents;
 - (g) engineering and technical;
 - (h) business impact and criticality; and
 - (i) project and programme management.
- 3.5 Each Line of Enquiry includes up to 20 detailed challenges, devised to match the maturity of the project at its particular point in its lifecycle. For example, at the initiation stage, the procurement and commercial Line of Enquiry assesses how the procurement options are being explored. At the contract award stage, the same Line of Enquiry will assess how the tenders were evaluated and the plans for managing the contract.
- 3.6 The Lines of Enquiry were developed as part of the Corporate Gateway Approval Process (CGAP) in 2008, following a comprehensive benchmarking process that assessed the assurance regimes in other organisations and the Office of

Government Commerce who produced gateway processes and guidance (now part of the Cabinet Office). Some additions have been made since 2008, including more explicit challenges covering cost benchmarking following consultation with IIPAG.

- 3.7 The review process is universal but the length and cost of the reviews vary according to the project's size and complexity. The average cost of the EEs commissioned in 2013/14 was £13,000.
- 3.8 The EE begins the review with a desk top study of the project documentation, followed by interviews with the sponsor and project teams, using the Lines of Enquiry as the framework for assessment.
- 3.9 Following the review interviews, the EE produces an Interim Report of up to 100 pages, which is distributed to the sponsor and project teams only. The Interim Report is discussed in detail at the Gate Review Meeting, from which the PMO Assurance team then produces the Final Report (about four pages). The process normally takes four to eight weeks from first contact to final report, depending very much on the scale and complexity of the project.
- 3.10 The IAR report is considered by appropriate bodies prior to seeking authorisation. For example, projects with a total value under £10m are normally considered by a Programme Board and projects under £50m are considered at the Rail and Underground Board or the Surface Transport Board, which are attended by the Managing Director of Finance. For projects over £50m the Finance and Policy Committee and Board (if applicable) are informed of the assurance reviews carried out.
- 3.11 IARs are conducted at key stages of the project:
 - (a) Initiation;
 - (b) Option Selection;
 - (c) Pre-tender;
 - (d) Contract Award;
 - (e) Project Close Out;
 - (f) Benefits Delivery; and
 - (g) Annual Review (where no other IAR would happen within 12 months).

External Assurance

- 3.12 The involvement of the IIPAG is determined on both a risk based approach and a project value threshold. The IIPAG reviews are normally commissioned on projects with a value of £50m or more, approximately 40 per cent of the reviews per year. The IAR process is as detailed above and the IIPAG then attends the Gate Review Meeting once the EE Interim Report has been produced. The IIPAG then produces its own reports, which are submitted at the relevant approval meetings alongside the PMO Report, based on its review of the IAR material and discussions at the final Gate Review Meeting.

4 Assurance in similar organisations

- 4.1 **Crossrail:** Crossrail operates a technical assurance regime, which includes a gated

design process. Crossrail also employs three panels of external experts which review engineering, systems and commercial, with commercial being the final review. The expert panels are staffed with industry experts and report to Crossrail's Chief Executive Officer, Andrew Wolstenholme. The primary governance point is the investment authority, which considers the technical, delivery and commercial proposition prior to tender and contract award. Crossrail also has a "Project Representative" appointed jointly by the DfT and TfL, who is co-located and provides the Crossrail Sponsors with an on-going assessment of Crossrail Limited's delivery performance. Jacobs provides the Project Representative function.

- 4.2 **Network Rail (NR):** NR uses a stage gate process (GRIP), similar to TfL's Pathway, and also based on the Office of Government and Commerce/Cabinet Office principles. The majority of the project and programme proposals are not subject to external scrutiny, and approval decisions are made by the NR Investment Board based on the internal assurance provided. As a regulated industry, NR is subject to review by the Office of Rail Regulation (ORR), which employs an "independent reporter" to provide scrutiny of NR. The ORR reviews NR's performance and plans, primarily conducted at portfolio level and as required by the ORR, individual project or programmes, based on a risk assessment. The regulatory review will consider whether NR has delivered its projects economically and efficiently.
- 4.3 **Nuclear Decommissioning Authority (NDA):** The NDA operates a three level assurance regime similar to TfL. Its internal stage gate reviews are resourced from within the project teams, second level assurance is provided from functional heads from within the NDA, and the third level from its Internal Audit. Additionally, the NDA is subject to further assurance from the Major Projects Authority.
- 4.4 **Thames Tideway (Thames Water):** This programme is subject to similar stage gate process where, at level three, OFWAT often supplement their analysis with a commissioned expert consultancy. The Treasury is also heavily involved and instigates its own reviews, in addition to a monthly Senior Reference Group attended by the regulator, DEFRA, OFWAT, Treasury and Thames Board to assure the programme.

List of appendices to this report:

None

List of Background Papers:

Finance and Policy Committee papers from 17 July 2014

Contact Officer: Steve Allen, Managing Director, Finance
Number: 020 7126 4918
Email: SteveAllen@tfl.gov.uk