

**This paper will be considered in public**

**1 Summary**

- 1.1 This paper sets out the outcome of the initial discussions with Members on the review of Board effectiveness in 2014 and invites them to comment on the proposed actions, the proposed methodology and focus for the externally assisted review for 2015 and TfL's proposed response to changes in the UK Corporate Governance Code.

**2 Recommendations**

**2.1 The Board is asked to note the paper and agree:**

- (a) the actions proposed in response to the review of Board effectiveness 2014;**
- (b) TfL's proposed response to the latest updates to the UK Corporate Governance Code; and**
- (c) the methodology and focus of the externally assisted review of Board effectiveness in 2015.**

**3 Background**

- 3.1 In line with good corporate governance practice, TfL reviews the effectiveness of its Board and its decision making structure every year. In two years out of every three, the Deputy Chair of TfL conducts an informal review and reports back to the Board. Every third year, TfL commissions an external review.
- 3.2 In 2012, TfL commissioned an external review and Internal Audit benchmarked TfL against the UK Corporate Governance Code (the Code). The Board considered the outcome of both exercises in December 2012. With the exception of issues relating to Board appointments (which will be considered for the next round of appointments in 2016), all of the recommendations have been addressed.
- 3.3 On 1 April 2012, TfL introduced a revised decision making structure as the meetings of the Board and its Committees (but not its Panels) became subject to the meeting provisions of the Local Government Act 1972 (as amended) ("the LGA 1972") from May 2012.

- 3.4 In 2013, the review of Board effectiveness focussed on the operation of the revised decision making structure, in light of operational experience. The review concluded that there had been significant and ongoing improvement in the presentation of information to Members and the public, including clearer context and financial information for decisions, greater consistency and thus read-across between monitoring documents and greater transparency. The Board agreed a number of further changes to its decision making structure and operation.

## **4 Outcome of the 2013 Review**

- 4.1 The further changes to the decision making structure and operation came into effect on 1 April 2014, along with changes to the membership of the Committees and Panels as follows:
- (a) To support greater transparency, the advisory Panels are treated as if they are subject to the LGA 1972 in respect of meeting in public, the use of Part 1 and Part 2 papers and dispatch of papers five clear working days before the meeting.
  - (b) To support a simplified decision making process with clear accountabilities, the Projects and Planning Panel was dissolved and its functions integrated into the work of the Finance and Policy Committee ("FPC"). To make the agendas manageable and to ensure high quality papers, the Chair of the Committee has an opportunity to review the draft agenda and papers and raise any issues with officers and members of the Independent Investment Programme Advisory Group before the agenda and papers are finalised. Other Members are also welcome to attend these discussions.
  - (c) To reflect its increasing focus on accessibility, the Safety and Sustainability Panel was renamed the Safety, Accessibility and Sustainability Panel and its accessibility remit was made more explicit in its terms of reference.
  - (d) To reflect the changing nature of the Crossrail project, progress reports would be submitted to the FPC and the Board. More detailed information on Crossrail will be included in the quarterly monitoring reports from Period 1 2014/15.

## **5 The 2014 Review**

### **Decision Making Structure**

- 5.1 The key issues raised by Members in the 2014 review are set out below:
- (a) The effectiveness to date of the changes to the decision making structure introduced on 1 April 2014 as set out in Appendix 1:**
- 5.2 Members considered that the operation of the Finance and Policy Committee and its revised agenda planning process were working well, with further

refinements made over the first two cycles of meetings. The agenda planning process enabled Members to identify information to be included in papers that went to the Committee.

- 5.3 Members requested that where a series of papers seeking authorities was likely to come forward over a period of time, a strategic briefing setting the programme in context should be provided, as well as individual papers setting out the strategic and policy context for a proposal/project and the options considered.
- 5.4 The Finance and Policy Committee established a Special Purpose Committee to review project governance issues, and this was due to report later in the year. The Committee already received a forward plan of projects that would come to it for approval and more time could be allocated to discuss this. Issues around Member engagement during the project approval process would be considered by the Sub-Committee.

#### **(b) The operation of Panels**

- 5.5 Since 1 April 2014, all meetings of Panels had been held in public. While public attendance has been limited, there had been no issues with the papers or meeting discussions since the changes.

#### **(c) Membership of the Committees and Panels**

- 5.6 The current membership of TfL's Committees and Panels is attached as Appendix 3. There were no specific issues raised or further changes proposed for 2014/15.

#### **(d) Member briefings, informal discussions and operational visits**

- 5.7 Members are provided with a number of informal opportunities to be briefed on aspects of TfL's work. There were no specific issues raised, except that additional information or briefing material should be provided to Members within two weeks of the request, unless a later date is agreed at the time that the request is made or where exceptionally the information is not yet available.

#### **(e) Informal Board discussions**

- 5.8 Members welcomed the occasional opportunity to meet informally. Further opportunities for informal engagement with the Mayor would be explored. Members welcomed their greater involvement in the Business Planning process.

#### **UK Corporate Governance Code Benchmarking**

- 5.9 Although the Code does not strictly apply to TfL, as part of the 2012 review of Board Effectiveness, Internal Audit benchmarked TfL against the Code and repeats this exercise annually. This is reported to the Audit and Assurance Committee in June each year.

- 5.10 The Financial Reporting Council (FRC) updated the Code in September 2014. The main changes and TfL's proposed "comply or explain" responses are:
- (a) Accounts / Annual Report to contain information on the long-term health and strategy. While long term solvency and liquidity isn't an issue for TfL, when considering its Annual Report and Accounts on 3 July 2014, the Board requested that the next Annual Report include a forward look and this will be addressed;
  - (b) Risk Management and internal control: Requirement to robustly assess principal risks and explain how they are being managed or mitigated. Monitor risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. TfL already complies with this by submitting regular risk management reports to the Audit and Assurance Committee and an annual report to the Board. The narrative in the TfL Annual Report will be reviewed;
  - (c) Remuneration Committee: Requirement that executive remuneration is designed to promote the long-term success of the company (and demonstrate how this is being achieved more clearly to shareholders). The remuneration of the Commissioner and Chief Officers is reviewed and approved by the Remuneration Committee, which also agrees the TfL Group Scorecard, upon which a proportion of the remuneration is based;
  - (d) Board behaviours: Board's role in establishing the 'tone from the top' of the company in terms of its culture and values. The directors should lead by example in order to encourage good behaviours throughout the organisation. TfL's compliance will be assessed as part of the externally assisted review of Board effectiveness in 2015; and
  - (e) Board effectiveness: Board dialogue needs to be constructive and challenging. TfL Response: TfL's compliance will be assessed as part of the externally assisted review of Board effectiveness in 2015.
- 5.11 The FRC has also indicated that issues around improving Board diversity when succession planning are likely to be included in the consultation for the next update to the Code in 2016. Diversity will be one of the criteria considered by the Mayor when the next recruitment campaign and appointments are made to the TfL Board following the 2016 Mayoral election.

## **6 The 2015 Review of Board Effectiveness**

- 6.1 The 2015 review will be externally assisted. It is proposed that the 2015 review follows the methodology and focus of the 2012 review, as summarised below. Members are invited to comment on the proposed approach, ahead of the invitation to tender issued to specialist providers.

- 6.2 The 2015 review methodology will include:
- (a) a review of Board, Committee and Panel papers (including attendance at a meeting of the Board);
  - (b) initial fact finding questionnaire to Members and Chief Officers;
  - (c) interviews with Members, Chief Officers and other senior staff and the Chairman of the Independent Investment Programme Advisory Group; and
  - (d) the submission of a report and recommendations to the Board.
- 6.3 The 2015 review areas of focus will be:
- (a) Role of the Board; and
  - (b) Performance of the Board, including:
    - (i) Strategy and planning;
    - (ii) Board structure and role;
    - (iii) Meeting processes;
    - (iv) Performance monitoring;
    - (v) Board and Member responsibilities; and
    - (vi) Board culture and relationships (including the issues identified by the FRC's Code).

## **7 Next Steps**

- 7.1 The actions agreed as a result of the 2014 review will be taken forward and arrangements will be made for the externally assisted review of effectiveness. An Invitation to Tender will be published in early 2015, with the aim of fieldwork being completed by May and a report being submitted to the Board in July 2015.

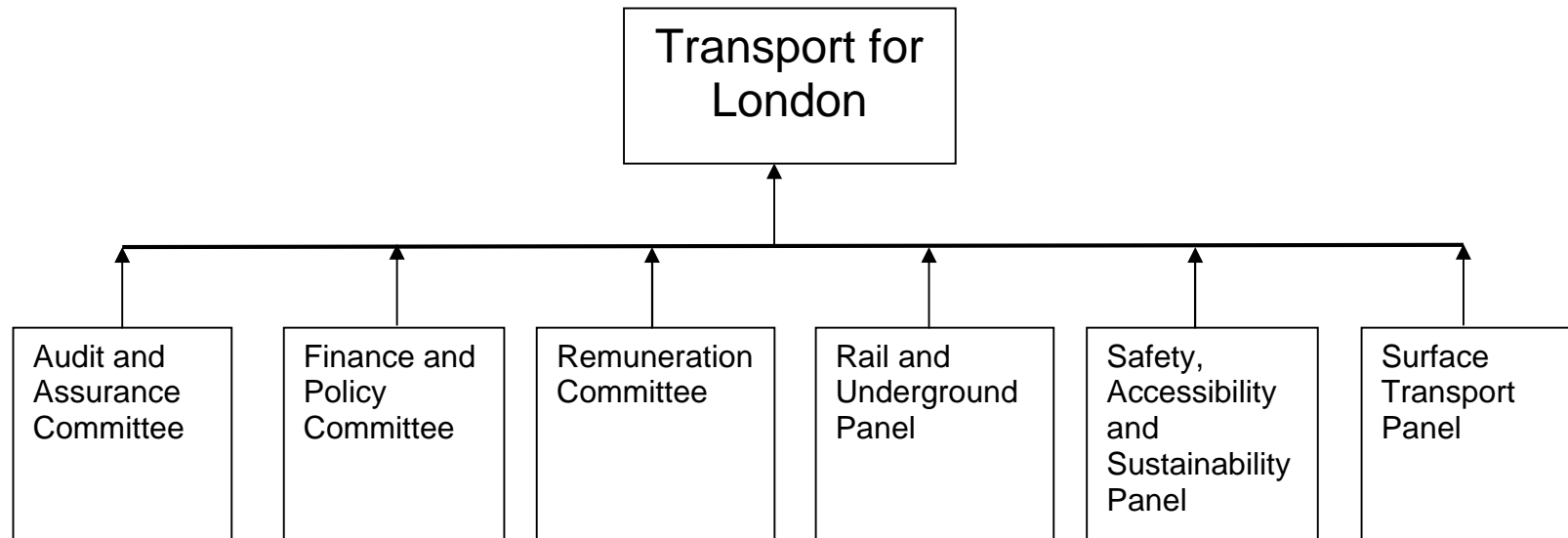
### **Appendices to this paper**

Appendix 1: Structure of TfL and its Subordinate Bodies

Appendix 2: Membership of TfL, Committees and Panels (from 1 April 2014)

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### Structure of TfL and its Subordinate Bodies



## Appendix 2

### Membership of TfL, Committees and Panels (from 1 April 2014)

<b>Board</b>	<b>Committees</b>	<b>Panels</b>
<p>Boris Johnson, Chair  Isabel Dedring, Deputy Chair  Peter Anderson  Sir John Armitt CBE  Sir Brendan Barber  Richard Barnes  Charles Belcher  Roger Burnley  Brian Cooke  Baroness Grey-Thompson DBE  Angela Knight  Michael Liebreich  Eva Lindholm  Daniel Moylan  Bob Oddy  Keith Williams  Steve Wright</p>	<p><b>Audit and Assurance Committee</b>  Keith Williams, Chair  Steve Wright, Vice Chair  Richard Barnes  Charles Belcher  Brian Cooke  Baroness Grey-Thompson DBE</p> <p><b>Finance and Policy Committee</b>  Peter Anderson, Chair  Daniel Moylan, Vice Chair  Sir John Armitt CBE  Brian Cooke  Isabel Dedring  Baroness Grey-Thompson DBE  Angela Knight  Michael Liebreich  Eva Lindholm</p> <p><b>Remuneration Committee</b>  Baroness Grey-Thompson DBE, Chair  Daniel Moylan, Vice Chair  Sir John Armitt CBE  Boris Johnson</p>	<p><b>Rail and Underground Panel</b>  Sir John Armitt CBE, Chair  Steve Wright, Vice Chair  Peter Anderson  Sir Brendan Barber  Richard Barnes  Charles Belcher  Brian Cooke  Isabel Dedring  Daniel Moylan</p> <p><b>Safety, Accessibility and Sustainability Panel</b>  Charles Belcher, Chair  Michael Liebreich, Vice Chair  Sir Brendan Barber  Richard Barnes  Baroness Grey-Thompson DBE  Bob Oddy</p> <p><b>Surface Transport Panel</b>  Baroness Grey-Thompson DBE, Chair  Charles Belcher, Vice Chair  Roger Burnley  Brian Cooke  Bob Oddy  Keith Williams  Steve Wright</p>