

Board

**Transport
for London**



Date: 12 December 2012

Item 13: Review of Board Performance and Governance

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to inform Members of the outcomes of an evaluation of the Board's performance and governance, and that of its Committees, Panels and individual Members and of the actions taken or proposed to address the recommendations made.

2 Recommendations

2.1 That the Board:

- (a) note the outcome of the review of its own performance and governance; and**
- (b) note the progress against the recommendations and agree with the further steps set out in this paper.**

3 Background

- 3.1 On 2 February 2012, in line with good corporate governance practice, the Board approved proposals for an evaluation of its own performance and governance, and that of its Committees, Panels and individual Members. The evaluation was made up of three elements:
- (a) a benchmarking review of TfL's corporate governance against the Financial Reporting Council's UK Corporate Governance Code 2010 (the Code);
 - (b) a review of TfL's Committee and Panel structure in the light of changes since the last review; and
 - (c) a review of the effectiveness of the TfL Board's working practices facilitated by a consultancy with specialist expertise in conducting such reviews.

4 The Benchmarking Review

- 4.1 This review, conducted by TfL Internal Audit, was considered by the Audit Committee on 7 March 2012. It did not identify any significant issues, but did identify a number of areas where governance arrangements could be enhanced in order to comply with the Code. Appendix 1 sets out how the recommendations have been addressed.

5 The review of TfL's Committee and Panel structure

- 5.1 The Board agreed a new Committee and Panel structure on 2 February 2012. The new structure became effective from 1 April and the meetings of TfL's Board and its Committees have operated under the meeting requirements of the Local Government Act 1972 since 1 May 2012.
- 5.2 The operation of all the meetings of the Board and its Committees have complied with the requirements of the law in respect of notice, availability of papers and being held in public.
- 5.3 Members have expressed a desire to have more time to discuss the Mayor's priorities, current issues and the significant items on the agenda and to be kept better informed of the discussions by TfL's subordinate bodies.

6 The Review of Effectiveness

- 6.1 The objective of the review was to obtain an accurate picture of the performance of the Board and that of its Committee, Panels and individual Members, to inform the operation of its decision-making arrangements, succession planning and future training requirements.
- 6.2 A number of recommendations were made covering:
- (a) role of the Board;
 - (b) strategy and planning;
 - (c) Board Committee composition and structure;
 - (d) meeting processes;
 - (e) performance monitoring; and
 - (f) Board and Member responsibilities.

7 Implementation

- 7.1 Appendix 1 sets out a list of all of the actions taken or proposed to address the recommendations made.

List of appendices to this report:

Appendix 1: Progress against Review Recommendations

List of Background Papers:

TfL Standing Orders and Subsidiary Bodies of TfL

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TfL Governance Framework Effectiveness Review Recommendations 2012

	Recommendation	Response
UK Corporate Governance Code 2010 Benchmarking Recommendations (TfL Internal Audit)		
1.	<p>Frequency of and attendance at Board meetings</p> <p>Consideration to be given to providing in the annual report additional consolidated information about the number of Board, Committee and Panel meetings and the attendance of Members.</p>	<p>This information was included in the 2011/12 Annual Report and will be provided for future Annual Reports.</p>
2.	<p>Terms of appointment of Board Members</p> <p>Consideration to be given to revision of the terms of appointment to include a more explicit reference to the expected time commitment.</p>	<p>This information was included in the 2012 Terms of Appointment for Members and will be provided in future Terms of Appointment.</p>
3.	<p>Review of effectiveness of the Board and its Committees and Panels</p> <p>In order to fully comply with these provisions, TfL should disclose the evaluation process in its annual report. A Board effectiveness review should be carried out annually going forward, including an external review every three years.</p>	<p>Information regarding the 2012 Board effectiveness review was included in the 2011/12 Annual Report. Future reviews will be undertaken annually with an external review every three years.</p>

	Recommendation	Response
4.	<p>Risk Management</p> <p>It is recommended that the following proposals be actioned:</p> <ul style="list-style-type: none"> • to produce quarterly risk reports, including both strategic and directorate level risks, to be submitted to meetings of the Rail and Underground and Surface Transport Boards; and • to consolidate the Rail and Underground, Surface Transport and Corporate quarterly risk reports to be reviewed by the Finance Leadership Team prior to submission to the quarterly meetings of both the Finance and Policy and Audit and Assurance Committees. <p>In addition to the proposals outlined above, consideration to be given to the submission to the Board of an annual risk report.</p>	<p>Strategic risk matters will be regularly reported to the Audit and Assurance Committee. The Board will consider an item on strategic risk at least annually.</p>
5.	<p>Audit Committee terms of reference</p> <p>Consideration to be given to amending the terms of reference of the Audit Committee (now the Audit and Assurance Committee) to follow the wording in provision C.3.2, so far as is applicable. This wording concerns the development and implementation of a policy for the engagement of the external auditors to provide non-audit services.</p>	<p>An amendment will be considered once the provisions of the Local Audit Bill are enacted.</p>

	Recommendation	Response
6.	<p>Non-audit Services</p> <p>It is recommended that a statement be included in the annual report to explain how auditor objectivity and independence is safeguarded when the external auditor provides non-audit services.</p>	<p>A statement was included in the 2011/12 Annual Report.</p> <p>A statement will be included in all future Annual Reports.</p>
7.	<p>Upper bonus limits</p> <p>In keeping with the spirit of the Code, it is recommended that consideration be given as to whether upper limits for bonus payments should be disclosed even in years where the payment awards are waived.</p>	<p>A statement was included in the 2011/12 Annual Report.</p> <p>A statement would be included in all future Annual Reports.</p>
8.	<p>Use of remuneration consultants</p> <p>In keeping with the spirit of the Code, it is recommended that consideration be given as to whether a statement should be made available indicating whether any remuneration consultants engaged have any other connection with TfL. (TfL has not made any such statement with regard to the engagement of Towers Watson in 2010.)</p>	<p>A statement was included in the 2011/12 Annual Report.</p> <p>A statement would be included in all future Annual Reports.</p>

	Recommendation	Response
Board Effectiveness Review Recommendations		
9.	<p>Role of the Board – Private Sector Benchmarking:</p> <p>Consideration be given to conducting a review (without limitation) of the role of the Board and the way in which it discharges its obligations in governance and leadership terms, benchmarked against the private sector.</p>	<p>TfL will continue to comply with the CIFPA/SOLACE guidance and will benchmark itself annually against the UK Corporate Governance Code. There will also be a review of the meeting structure in early 2013.</p> <p>The Board will be asked to consider the nature and timing of any further reviews.</p>
10.	<p>Strategy and Planning – Mayoral Priorities:</p> <p>At the start of a Mayoral term and at least annually thereafter, the Board should devote a material amount of time to reviewing Mayoral priorities and reflecting on the strategic priorities of TfL and its ability to deliver against them over the longer term, which may span a Mayoral term. It would also be helpful for the Mayor to provide guidance to the Board, both at the start of a Mayoral term and at subsequent Board meetings.</p>	<p>At its meeting on 27 June 2012, the Board discussed the Mayoral priorities relating to transport and TfL’s response. Further discussion of these matters has been included as part of the TfL Business Planning process.</p> <p>The Mayor will have at least one annual informal engagement with Members to discuss priorities at the start of the annual Business Planning round and other opportunities for informal engagement would be sought.</p> <p>The Commissioner’s Report would continue to be structured around the Mayoral priorities for transport.</p>
11.	<p>Board/Committee Composition and Structure – Gender Balance:</p> <p>New appointments to the Board should at least have a neutral effect on the gender balance or improve it still further.</p>	<p>The Mayor reappointed 12 Members to the Board in June and appointed four new Members in September 2012. Two reappointed Members will step down in December 2012 and three new Members will take up post in January 2013.</p> <p>The Member appointment process aimed to have at least a neutral effect.</p>

	Recommendation	Response
12.	<p>Board/Committee Composition and Structure – Ethnicity:</p> <p>New appointments to the Board should address the issue of ethnicity and that, if necessary, the Board should be run with one or two places vacant for a period unless and until suitably qualified candidates can be identified.</p>	<p>The Mayor reappointed 12 Members to the Board in June and appointed four new Members in September 2012. Two reappointed Members will step down in December 2012 and three new Members will take up post in January 2013.</p> <p>The Member appointment process aimed to have at least a neutral effect.</p>
13.	<p>Board/Committee Composition and Structure – Marketing and Customer Engagement:</p> <p>New Member appointments should take into account the advantage that a Member with proven and distinctive marketing and customer engagement credentials would bring to the Board, whether that person had gained experience in public transport or not.</p>	<p>The Mayor reappointed 12 Members to the Board in June and appointed four new Members in September 2012. Two reappointed Members will step down in December 2012 and three new Members will take up post in January 2013.</p> <p>The Member appointment process aimed to have at least a neutral effect.</p>
14.	<p>Board/Committee Composition and Structure – Audit Experience:</p> <p>An additional senior level accountant with audit experience gained from the private or local government sectors should be appointed to the Board with a view to being also appointed to the Audit and Assurance Committee.</p>	<p>The Mayor reappointed 12 Members to the Board in June and appointed four new Members in September 2012. Two reappointed Members will step down in December 2012 and three new Members will take up post in January 2013.</p> <p>The Member appointment process aimed to have at least a neutral effect.</p>

	Recommendation	Response
15.	<p>Board/Committee Composition and Structure – Major Projects Experience and IIPAG:</p> <p>A review is conducted of the protocols governing the operation of IIPAG, there should be a process for active monitoring of IIPAG’s recommendations by an appropriate Panel or Committee of the Board and consideration be given to a TfL Member being appointed with major projects experience.</p>	<p>The Membership of the IIPAG was reviewed in July 2012. Its protocols are reviewed annually.</p> <p>The establishment of a single PMO and of the Projects and Planning Panel have provided a greater focus for monitoring the IIPAG’s recommendations.</p> <p>A review will be undertaken by the Projects and Planning Panel of the relationship between the work of the IIPAG and TfL’s decision making framework.</p>
16.	<p>Board/Committee Composition and Structure – Appointment Term (1):</p> <p>Consideration be given to appointing some Members (usually on reappointment) to a term of less than four years.</p>	<p>During the recent reappointments three Members were appointed for terms of less than four years.</p>
17.	<p>Board/Committee Composition and Structure – Appointment Term (2):</p> <p>TfL should consider adopting a convention that Members should not normally serve more than a maximum of eight years consecutively.</p>	<p>During the recent reappointments, two Members who had served more than eight consecutive years were not reappointed.</p> <p>None of the existing appointees will have served more than eight years by the end of their term of appointment.</p>

	Recommendation	Response
18.	<p>Board/Committee Composition and Structure – Conflicts of Interest:</p> <p>Member appointments should take into account the potential for conflict of interest and that candidates who are likely to be conflicted by reason of bodies they represent should only be appointed if that is the only way of making their experience available to TfL.</p>	<p>TfL had established procedures in place to deal with conflicts of interest and consideration was given to potential conflicts of interest during the recent appointments process.</p>
19.	<p>Board/Committee Composition and Structure – Appointment Process:</p> <p>Consideration is given to formalising the nominations processes of TfL, especially as regards appointments of Members, and that a Nominations Advisory Group be set up, accountable to the Board and available to give advice, as necessary, to the Mayor.</p>	<p>The appointment of TfL Members is a matter for the Mayor under the GLA Act. The Mayor informally consults TfL on appropriate appointments.</p>
20.	<p>Board/Committee Composition and Structure – Remuneration Committee:</p> <p>There should be a greater level of governance transparency between the Remuneration Committee and the Board and that the Board should devote time to a material agenda item, at least once a year, on senior level remuneration.</p>	<p>In accordance with Standing Orders, a summary report of the items discussed at every meeting of a Committee is submitted to the next meeting of the Board and Members have an opportunity to discuss any item considered by a Committee. Future reports from all Committees to the Board will contain more detail on the salient issues raised.</p> <p>An item on senior level remuneration will be included on the Board agenda at least annually.</p>

	Recommendation	Response
21.	<p>Board/Committee Composition and Structure – Senior Staff Succession Planning:</p> <p>The work of the Remuneration Committee (or a new Nominations Advisory Group) be expanded to ensure that senior level succession planning is discussed at Board level on a regular basis.</p>	<p>Senior level succession planning will be discussed by the Remuneration Committee at least annually. This will be reported to the Board as part of the usual Committee reporting process</p>
22.	<p>Board/Committee Composition and Structure – Audit Experience</p> <p>The performance of the Board and Committees be reviewed annually in line with best practice, in accordance with the UK Corporate Governance Code.</p>	<p>An annual review will be undertaken in line with best practice and in accordance with the UK Corporate Governance Code.</p>
23.	<p>Meeting Processes – Review:</p> <p>A short review is conducted of the operation of the Board and Committee agendas to ascertain whether some business could be conducted under a deemed business provision, thereby freeing up time generally.</p>	<p>A new Committee and Panel structure was introduced in April 2012. TfL’s Board and Committee meetings fell within the remit of the Local Government Act 1972 on 3 May 2012.</p> <p>Additional time would be taken at each meeting of the Board to discuss the most significant agenda items for decision. The summary reports from Committees to the Board would contain a fuller description of the issues discussed and the Chair of the relevant body may consider speaking to the salient issues raised.</p> <p>Wherever possible, routine items will be taken at the end of the meeting agenda.</p>

	Recommendation	Response
24.	<p>Meeting Processes - Discussion:</p> <p>Consideration should be given to submitting papers in draft to promote better opportunities for discussion and scrutiny by the Finance and Policy Committee.</p>	<p>Panels provide a forum for discussion of projects at a formative stage. The Projects and Planning Panel would usually meet at least two weeks before the Finance and Policy Committee to allow Members to have more detailed discussions on particular items.</p>
25.	<p>Performance Monitoring – UK Corporate Governance Code:</p> <p>The exercise to review compliance with the UK Corporate Governance Code is conducted annually, in view of the fact that there are now regular consultations on this Code and the likelihood of future change (not all of which will be relevant to TfL) is high.</p>	<p>TfL will continue to comply with CIFPA/SOLACE guidance and will benchmark itself annually against the UK Corporate Governance Code.</p>
26.	<p>Performance Monitoring – Risk Management:</p> <p>In order for the Board and the Audit and Assurance Committee to discharge their governance functions more effectively, further work is conducted to integrate the risk management frameworks and reporting on a TfL group wide basis.</p>	<p>TfL had produced an Integrated Assurance Framework and Plan and is developing proposals to provide integrated reports.</p> <p>Assurance reports will be provided to the Audit and Assurance Committee on a regular basis.</p>

	Recommendation	Response
27.	<p>Performance Monitoring – Engagement with Stakeholders:</p> <p>Time is found on the Board agenda in open session to review how TfL engages with its myriad stakeholders and satisfy itself that this activity is being handled effectively and that the organisation is responding to evidence gained from stakeholders.</p>	<p>The Board frequently discusses stakeholder matters, as part of the Commissioner’s Report or as part of a specific agenda item.</p> <p>The quarterly Operational and Financial Performance Report has been expanded to include information on engagement with stakeholders.</p>
28.	<p>Board and Member Responsibilities:</p> <p>Consideration is given to the extent of the Board’s involvement in policy review and guidance and a determination made as to whether this is adequate in governance terms.</p>	<p>A new Committee and Panel structure was introduced in April 2012. TfL’s Board and Committee meetings fell within the remit of the Local Government Act 1972 on 3 May 2012.</p> <p>All significant contributions to strategic planning consultations will be reported to the relevant Committee or Panel.</p>