

**Date:** 3 July 2018

**Item:** Independent Investment Programme Advisory Group  
(IIPAG) – Quarterly Report

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## This paper will be considered in public

### 1 Summary

- 1.1 The purpose of this paper is to present the Independent Investment Programme Advisory Group (IIPAG) Quarterly Report.

### 2 Recommendation

- 2.1 **The Committee is asked to note the paper.**

### 3 Background

- 3.1 The IIPAG Terms of Reference, updated by the Board in January 2018, requires the production of a Quarterly Report for the Audit and Assurance Committee and the Committee.
- 3.2 The IIPAG Terms of Reference requires that the Quarterly Report covers IIPAG's advice on strategic and systemic issues, new 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.
- 3.3 The Quarterly Report was also considered at the Audit and Assurance Committee on 7 June 2018.
- 3.4 The IIPAG Quarterly Report is attached as Appendix 1. The Report provides an update on some systemic issues raised previously by the IIPAG in its annual report for 2016/17 as well as raising some new issues. The IIPAG has not made explicit recommendations in its report, but we have, nevertheless, provided a Management Response to the main issues identified, which is set out in Section 4 below.

### 4 Management Response

#### Telecoms

- 4.1 We are following a strategy for telecommunication networks approved by the TfL Executive Committee in May 2016. This consists of three parts – bought-in networks, owned networks and commercial exploitation of our estate for third party use.
- 4.2 **Bought-in Networks:** Many leased networks are provided for individual services across the business. This has been the subject of IIPAG reports for many years.

The core TfL network has been contracted afresh for the first time since 2004. This is the core for consolidating all bought-in networks, which will happen as other contracts expire. The contract award was approved by the Finance Committee in December 2017 and we are now in the middle of transition. The service goes live in September 2018. This change will result in savings of several million pounds per year.

- 4.3 **Owned networks:** We also run many separate networks that support core railway operations. In most cases these networks have been built as part of a bundled contract, such as for signalling systems. The largest of the owned networks was built as part of the Connect Private Finance Initiative contract and provides a radio network as well as fibre optic links for the Underground. Connect is reaching the end of its contracted life in 2019 and there is a need to find a way to keep the service going beyond this date. Connect services are operationally critical for the Underground. A clearer contractual arrangement and a modernisation of the Connect infrastructure can provide the platform for consolidation of owned networks. Much further work needs to be done to achieve the desired level of consolidation but this is progressing.
- 4.4 **Third party exploitation:** We are helping the Home Office with the deployment of the Emergency Services Network (ESN) into the Underground. Over the last year we have installed “leaky feeders” transmission cables into approximately half of the Underground’s tunnels and many station areas. This work is funded by the Home Office and will be delivered in line with their strategy. Separately, we are also working on the installation of 4G public cellular and use our networks to establish a commercial fibre system.
- 4.5 There is a substantial amount of work going on with telecommunications. We are addressing issues that have not been addressed for a very long time. Many of these activities are time critical and need to be addressed, irrespective of the long term aims to consolidate networks further.

### **Procurement and Commercial**

- 4.6 The Commercial Directorate has been established as a Professional Service since 2017, with commercial and procurement staff embedded within particular teams where appropriate but reporting to the Chief Procurement Officer. We welcome the recognition of improvements in capability and performance within the function and an enhanced focus on outcomes.

### **Transformation Programme**

- 4.7 The Engineering Directorate and the Programme Management Unit, formerly the Programme Management Office, are transforming into a Professional Service structure, with business partnering and embedded staff, similar to the Commercial, Finance and other directorates. We will provide a briefing to the IIPAG once the new structures have been agreed and stood up.

### **Governance**

- 4.8 The IIPAG will be briefed on the governance changes (primarily in Surface Transport).

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

4.9 We welcome the IIPAG's support in challenging estimated final costs that are optimistic or unrealistic, as part of the assurance processes.

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

4.10 The Integrated Assurance Plan (IAP) is agreed between the Project Assurance Team and all Sub-Programmes have an IAP in place. The same format is used across all the Sub-Programmes and is generic in some aspects. Project Assurance will work with the IIPAG to develop each IAP in more detail. IIPAG acknowledges that the Continuous Assurance processes are in place, including attendance at Sub-programme Boards and recommendation tracking. We will develop the IAPs to include more detail on specific outputs of the Continuous Assurance. Discussions with the IIPAG on improving the IAPs have begun.

### **List of appendices to this report:**

Appendix 1 – IIPAG Quarterly Update

### **List of Background Papers: None**

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## Appendix 1

### Item: **Independent Investment Programme Advisory Group – Quarterly Report (June 2018)**

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#### **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.

#### **2 Background**

- 2.1 New Terms of Reference for IIPAG were approved at the TfL Board on 30 January 2018.
- 2.2 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 Programmes and Investment Committee and the Audit and Assurance Committee.
- 2.3 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.

#### **3 Strategic and Systemic Risks and Issues**

##### **Update on previously identified systemic issues**

- 3.1 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.
- 3.2 These systemic issues are addressed below.
- Telecoms:*
- 3.3 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.

- 3.4 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.
- 3.5 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.
- 3.6 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.
- 3.7 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:*

- 3.8 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).
- 3.9 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:*

- 3.10 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.

- 3.11 As part of its work to improve Integrated Assurance Plans (IAPs) (see paragraph 4.6) IIPAG will review IAPs to advise whether they include sufficient focus on resources and the risks associated with resources through this Transformation.

*Governance:*

- 3.12 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.
- 3.13 IIPAG has now been involved in 19 sub-programme reviews. Its initial views have been confirmed in the past year.
- 3.14 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.
- 3.15 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 4.
- 3.16 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**

- 3.17 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.
- 3.18 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.

- 3.19 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.
- 3.20 IIPAG will continue to draw attention to projects and programmes where it considers the EFC to be unduly optimistic.

### **Suggested areas for attention**

- 3.21 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 through this Transformation (see also para 4.6); and
  - (c) continue to draw attention to projects and programmes where it considers the EFC to be unduly optimistic.

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

- 4.1 As noted in paragraph 3.14, 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.
- 4.2 Overall, IIPAG would describe the current IAPs, and associated process more as "continuous monitoring" rather than "continuous assurance".
- 4.3 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.
- 4.4 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.

- 4.5 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.
- 4.6 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.
- 4.7 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.

## **5 Reviews and Actions**

- 5.1 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.
- 5.2 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.
- 5.3 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.
- 5.4 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