

MANAGEMENT OF TfL INVESTMENT PROGRAMME

Summary

This note sets out strengthened arrangements for the management, governance and assurance of the TfL Investment Programme. It responds to the increased size of the London Underground investment programme following the transfer of responsibilities from the former Metronet companies but covers all of the TfL Investment Programme, including all maintenance, renewal, upgrades and major projects, but not operations. It includes:

- A clearer structure for the management of investment under the new Managing Director, London Underground
- More visibility within that structure of LU Directors with responsibility for Investment Programme delivery
- A clear separation of client and delivery functions within LU
- Agreement of delivery strategies for major investment projects
- Focused use of external delivery partners
- TfL Board and Committee oversight of investment programme delivery
- An enhanced independent assurance process reporting to the TfL Board and the Mayor (as Chair), drawing on the expertise of engineering consultancies and overseen by a panel of independent expert advisers appointed by the Mayor of London from a shortlist agreed with the Secretary of State for Transport
- Continuous independent review of major projects
- Transparent reporting of performance
- Continuing external audit of value for money

Background

Following the administration of the Metronet companies, LU has had to take on responsibility for the management of the investment programme previously undertaken by them (most notably the Sub-Surface Lines upgrade and the Victoria Line Upgrade, but also track and civils renewals and completion of station enhancement and refurbishment projects). This is alongside the substantial investment programme which had not been undertaken by the Infracos, including major station capacity relief projects (eg Victoria), power upgrades (in part undertaken by EdF Powerlink under a modified PFI structure) and tunnel cooling projects. It is appropriate to consider therefore how these works are undertaken and the systems of governance and assurance on their delivery.

Management of the Investment Programme

LU has revised its management structure to reflect these increased responsibilities into broad areas of Delivery, Client and Support. In respect of the Investment Programme, the Delivery function is split between a Director of Line Upgrades and a Director of Projects (responsible for projects other than the Line Upgrades and the management of the Tube Lines PPP contract); in due course these directorates may be combined into one. The Director of Strategy and Service Development (S&SD) provides the Client function for the Investment Programme, specifying the outputs to be delivered by projects. There is a clear change procedure managed by S&SD and changes to scope cannot be made without their agreement.

With these revisions to the management structure of LU, and under the appointment of a new Managing Director, there will be more visibility of senior LU staff to meetings of the TfL Board and its Committees and Panels and more transparency of decision-making within LU as a result.

After the failure of Metronet, LU inherited a number of its sub-contracts:

- On the Victoria Line Upgrade, Bombardier is the principal supplier, manufacturing the rolling stock, sub-contracting the signalling upgrade to Westinghouse and taking overall responsibility for systems integration
- On the Sub-Surface Lines upgrade, Bombardier is again manufacturing the rolling stock but the signalling supply sub-contract was terminated. A new signalling contract is expected to be let early in 2010. LU has built an integrated programme management and systems integration team with support from Parsons Brinckerhoff and Booz Allen.
- On track, the contract with Balfour Beatty was amended and runs until March 2011, at which point it will be re-competed.
- Renewals of civils and station works are managed through frameworks of suppliers.

Delivery Strategies

For each major project, LU has produced a Delivery Strategy which sets out how the project will be procured and managed. These will include the form of contracts, use of outside partners and risk management. Approval of the Delivery Strategies is a key part of the project governance discussed below. Delivery strategies for major projects will be shared with DfT and, in support of his continuing role in respect of the Tube Lines PPP contract, with the Office of the PPP Arbiter.

Overall LU governance

LU is subject to TfL's systems of governance through its Standing Orders. Projects with a value of over £50m require the approval of TfL's Finance Committee and those with a value of over £100m require the approval of the TfL Board. The Rail and Underground Panel, a sub-committee of the TfL Board chaired by Christopher Garnett, undertakes scrutiny of LU's operations and investments but does not approve projects. The Board and its Committees benefit from several members with significant experience of capital investment.

Enhanced independent assurance process: Panel of independent expert advisers

There will be an enhanced governance process reporting to the TfL Board, building on an existing Gateway approval process. The Mayor will appoint a panel of independent advisers to the TfL Board to provide assurance on the delivery of the Investment Programme.

The Secretary of State and Mayor will agree the terms of reference of the panel, including the criteria for appointment of the independent advisers, which will be based on relevant experience in a range of disciplines including engineering and project management - as a whole the panel will need to be in a position to offer expert advice on all of the areas within its terms of reference. The Mayor will draw up a shortlist for appointments to the panel which will then be agreed with the Secretary of State. The Mayor will make appointments from the agreed shortlist.

The panel will be directly accountable to the TfL Board. The panel will oversee the system of Gateway reviews for each project. At pre-determined points in a project's lifecycle, a review will be undertaken on all aspects of project delivery including cost, programme deliverability, and compliance with domestic and EU procurement rules. The review will be conducted by an independent firm of engineering or project management consultants. For large and long term projects, such as LU line upgrades, TfL would seek to use one firm of consultants to report on the project for its duration. The panel will oversee the selection of the consultants, agree their scope of work and offer commentary on their conclusions. The TfL Board will ensure, as part of its annual approvals of TfL's Business Plan and Budget, that these reviews are adequately resourced and that the remuneration of the panel members is sufficient to attract advisers with the requisite experience.

The reviews will be submitted to the Board and its relevant committees, as part of the approval of the relevant Gateway. Reviews will be accompanied by a TfL management response setting out how the issues raised in the review have been or will be dealt with.

In addition, the panel will be able to review progress on projects between Gateway reviews, and review delivery of the investment programme at a portfolio level, including management and organisational capability and the efficiency, effectiveness and economy of delivery of the investment programme. The panel's remit covers the entirety of TfL's investment programme, including all maintenance, renewal, upgrades and major projects, but not operations. The panel will commission other reviews as it or the TfL Board consider appropriate.

For projects larger than £5m but lower than £50m, and so not requiring Board or Committee approval, the Gateway review process will be conducted in the same way but with the reviews presented to TfL senior management and approvals reported to the Finance Committee.

The panel will share the reviews, and any additional commentary provided by the panel when it submits them to the Board, with DfT officials on a confidential basis, save where, in the view of DfT, relevant information has to be shared with the European Commission.

The panel will be under a duty to report to the TfL Board at least annually, drawing overall conclusions on the delivery of the Investment Programme. The annual report will be published.

LUL Reporting

We are now publishing four-weekly performance reports on our website on the activities taken over from the former Metronet companies. We will send these reports direct to Government. In addition, LU is continuing to make information fully available to the PPP Arbiter and will continue to publish the Annual PPP Report which will now cover its own performance in these areas as well as that of Tube Lines.

Quarterly Investment Reports are provided to the TfL Finance Committee and Board alongside Operational and Financial Reports. These are publicly available as part of the TfL Board papers.

Assurance

The project governance arrangements above are a key part of TfL's assurance on delivery of the investment programme. In addition, since LU is a company regulated under the Companies Act, external audit is undertaken, currently by KPMG. The Audit Commission appoints an external auditor to undertake value for money audit of TfL and its subsidiaries, including LU. We have a policy of using the same external auditor for the audit of our subsidiaries as appointed by the Audit Commission to ensure that they have a comprehensive overview.

Conclusion

It is important that the systems of governance and assurance recognise the devolution of responsibility to the Mayor under the GLA Act. Thus, whilst Government retains a strong interest in the delivery of LU investment from its continued grant support, it is ultimately for the Mayor and the Board to decide which projects proceed and to manage their delivery.

All systems of governance and assurance have a cost and it is important therefore that we do not establish parallel systems but build on existing systems to provide the assurance required by all parties. The proposals suggested above have been developed with that principle in mind.