

Independent Investment Programme Advisory Group – Annual Report 2013/14 – TfL Management Response

Date: September 2014

1 Background

- 1.1 The Independent Investment Programme Advisory Group (IIPAG) Terms of Reference, established in 2010, require the production of three annual documents, two of which, the IIPAG Work Plan and Budget for 2014/15, were submitted to TfL's Finance and Policy Committee in June 2014. These documents are referred to in the third document, the IIPAG Annual Report for 2013/14, which reports on TfL's delivery of its Investment Programme for the period from April 2013 to March 2014. This was submitted to the Committee in July 2014.
- 1.2 The IIPAG submitted its Annual Report to TfL on 6 May 2014.

2 Work Plan and Budget 2014/15

- 2.1 The IIPAG's proposed allocation of time is similar to previous years, split between programme and project reviews, systemic reviews, asset management and benchmarking and general management. This is considered a sensible and broad estimate, which can be adjusted if priorities change during the year.
- 2.2 The IIPAG's proposed annual budget for 2014/15 is £500k, covering an estimated 450 days plus some scope for increased work during the year. This is consistent with costs and time spent by the IIPAG during 2013/14, and aligns with TfL's estimate.

3 IIPAG Annual Report 2013/14

- 3.1 TfL welcomes the continuing support and constructive challenge provided by the IIPAG.
- 3.2 TfL makes a number of observations and comments on the content of the IIPAG Annual Report, which are summarised below.
- 3.3 **Project Reviews** (IIPAG report section 2)
 - (a) **Approach:** TfL recognises the value of internal peer reviews, which have improved knowledge sharing across the business. Over ten per cent of reviews were conducted using internal resources during the year and TfL plans to expand this to 20 per cent during 2014/15.
 - (b) **Gateway Reviews (Resourcing):** TfL recognises the challenge of resourcing large and complex projects such as New Tube for London, Northern Line Extension and Silvertown Crossing. TfL will continue to seek to attract and develop suitable staff for such projects and has been successful in doing so on the multi billion pound Sub-Surface Upgrade Programme (SUP) over the

last 18 months. In addition, TfL will seek to assign resources across TfL to align best with project needs. The Director of Capital Programmes (LU) and the Director of Projects and Programmes (Surface Transport) have agreed to share resources between their respective portfolios and a number of knowledge sharing exchanges have progressed between the two teams.

- (c) **Gateway Reviews (Project Close Out):** The benefits of many TfL projects can only be measured some considerable time after the completion of the physical works and/or systems. The effect of this is often to delay the Close Out process. The Close Out of a project has now been broken down into two stages, separating the snagging and financial settlement from the business case review and benefits delivery. This will allow earlier completion of Close Out of the contractual/delivery elements.

The TfL Programme Management Office (PMO) will monitor progress of project close out, and highlight to the Rail and Underground and Surface Boards any projects where the period beyond physical completion of the works/delivery and close out is considered excessive.

- (d) **Projects and Planning Panel/Finance and Policy Committee Requests (SUP Automatic Train Control (ATC)):** TfL notes the IIPAG's contribution to the SUP ATC contract, leading to the IIPAG's support for the contract award, ongoing reviews and advice, then subsequently its independent advice during the re-tendering exercise. TfL does not agree with the IIPAG's recommendation that further investigation is required into the circumstances surrounding the letting of the original contract and to understand further the full sum of the abortive cost. The abortive costs written off have been included in TfL's statutory accounts for 2013/14, audited by KPMG, which expects to issue an unqualified report.

TfL commissioned a thorough lessons learnt exercise from KPMG. KPMG reviewed all the documentation and meeting minutes during the tender process, copies of which were provided by TfL. KPMG also interviewed or invited input from all individuals both currently employed and former employees who were involved in the tender process at the time. TfL has shared both the draft report and TfL's response with the IIPAG and is not aware of any outstanding investigation that could be carried out. TfL is now focusing its efforts on implementing the findings from the lessons learnt.

- (e) **Examples of Best Practice:** TfL acknowledges the examples quoted of best practice, which it believes are representative of the industry leading practices being demonstrated at TfL.
- (f) **Review of Project Progress Dashboards:** TfL produces project and programme dashboards at appropriate levels of detail for the reviewer. The dashboards published for senior board review are deliberately high level, with more detailed reports generated for Programme Directors and Programme Boards, enabling detailed analysis. TfL is happy to share the programme level dashboards with the IIPAG.
- (g) **Recent Progress (Capital Delivery Organisation):** TfL believes there is a strong need to retain a close link between the operational and project parts of

its operational businesses, and consequently retain a Capital Delivery team in both Rail and Underground and Surface Transport. The option of a single Capital Delivery team was considered two years ago, and TfL believes the decision made then remains valid. Increased co-ordination and sharing between the two teams, driven from the respective leaders of both operational businesses, will facilitate greater sharing of key resources.

3.4 Systemic Issues (IIPAG report section 3)

- (a) **Sponsorship:** The IIPAG recognises the improvement in TfL's sponsorship capability. TfL continues to implement its Sponsorship Capability Improvement Programme (SCIP) and welcomes the proposed IIPAG review of early stage project development. The SCIP programme director has recently briefed the IIPAG on progress.
- (b) **Organisational Issues:** A separate detailed management response will address the IIPAG recommendations regarding the PMO.
- (c) **Procurement and Commercial:** The IIPAG is regularly updated on, and recognises the initiatives and improvements in commercial management within Rail and Underground, but is less sighted on the commercial capability programme run centrally with TfL. TfL's Commercial Centre of Excellence is working closely with Rail and Underground, Surface Transport Commercial, the PMO and the LU Capital Programme Directorate on a number of work streams, including areas such as estimating, cost control and reporting, evaluation, Innovative Contractor Engagement and incentive regimes. These initiatives are monitored through the Commercial Capability Programme which reports to the Delivery and Commercial Capability Programme Board. Therefore, a programme already exists and is addressing the issues raised by the IIPAG, and a consultancy group or a Commercial Secretariat is not necessary. However, TfL will ensure that the IIPAG has visibility of the programme and the progress being made.

Regarding the IIPAG's view that current market prices are significantly below those adopted by TfL in producing initial cost estimates, TfL does not consistently over-estimate the value of projects. Tenders have been received both above and below its estimates, often reflecting the market conditions at the time.

TfL's estimates are established using historic cost information, the accuracy of the estimates is being improved through the use of greater and more reliable cost information. TfL has instigated a programme to record past and present contract data in a consistent manner. As more historic data is collected, TfL's cost database becomes more reliable, and it expects to estimate more accurately. In addition, the extensive cost data obtained through benchmarking work undertaken and shared with the IIPAG will continue to feed into project estimates. Although contractor costs often make up the majority of projects' costs, other areas of cost are equally or more prone to fluctuate, such as property prices and utility costs.

Where the project estimated final cost (EFC) is below the project authority levels at contract award, there are a number of controls and incentives to

drive efficiency and guard against projects spending any delta between the EFC and authority. At contract award, the procurement authority is granted inclusive of the risk allowance. Risk is only released in accordance with project governance, which would typically mean a project manager must seek approval from the Programme Board to spend risk allowance as well as for any other change requests. Programme Boards are populated with director level staff, including those from the sponsors, the deliverer, the user, commercial and finance. This control ensures any proposed spend above contract value is scrutinised at a senior level.

In addition to controls, the project manager is set efficiency targets across a portfolio of projects, providing further incentive to reduce costs.

Project managers have to manage and balance a number of variables to deliver within the set of project and programme requirements. Other factors that need to be managed include the use of closures and access. Greater use of closures might mitigate schedule and cost delay risks, but could adversely affect customer service and reputation. Similarly, schedule risk can be mitigated through acceleration, but increase cost risk.

TfL will discuss these arrangements with the IIPAG and consider any suggested changes.

- (d) **Research and Development (R&D):** While TfL has only a small R&D budget, it commissions many research and development work streams through individual projects and programmes, such as obstacle detection for the New Tube for London project. TfL will work with the IIPAG to share best practice from similar industries.
- (e) **Telecommunications:** TfL welcomes and recognises the appraisal of the data transmission networks as highlighted within the IIPAG's annual report. IM is currently working constructively with teams across the business to develop a plan to isolate and address the issues and capitalise on the opportunities identified within TfL and recognised by the IIPAG. Given the current state in terms of breadth and depth, and TfL's drive to implement a sustainable approach for the 21st century, the focus continues to be on the identification and remediation of the root causes rather than the symptoms presently exhibited across the business, i.e. the fragmentation of the infrastructure and services and underlying cost base.

TfL welcomes the IIPAG's assessment that the network estate is indeed complex. TfL is keen to ensure that provision is made within the plan to assure the services during the transformation and simplification of the operation of the data transmission network landscape. TfL also agrees that a staged plan is the way forward. However, given the legacy complexities and the mission critical nature embedded within, a key principle of the approach will be to transition the least critical services first, irrespective of the business unit and focus on more mission critical services once the approach has been embedded with confidence. TfL would welcome the IIPAG's support in helping to achieve this.

- (f) **Early Stage Project Development:** The IIPAG acknowledges the Sponsorship Improvement Programme, which will develop further the role of the sponsor at all stages of the project, including the early stages. TfL will continue to engage with the IIPAG as the programme progresses.
- (g) **Innovative/Early Contractor Involvement:** TfL has successfully implemented Innovative Contractor Engagement (ICE) at Bank Station Upgrade project, generating both significant cost and benefits improvements. TfL believes the different approach on the Bank Bloomberg project, and the Structures and Tunnels Investment Programme, has also generated benefits for TfL, albeit the scope for innovation was not as great as for Bank Station Upgrade.

TfL will work with the IIPAG to explore further the best use of ICE, and to exploit opportunities to develop this form of procurement. A more detailed response will be provided to the IIPAG.

- (h) **Overheads:** TfL already records project hours for the vast majority of Underground staff, and seeks to extend this practice further across TfL where it will add value.
- (i) **Cycling:** TfL welcomes the IIPAG's input on cycling. Work is underway to follow up the recommendations made, for example, in developing a cycling demand model. TfL notes the comment "we do have ongoing concerns about deliverability issues". This is being addressed through a number of measures. From a strategic perspective, route prioritisation takes place based on a number of criteria including deliverability and alignment with other construction activity taking place across the Capital. This also enables the available funding within the Cycling Portfolio to be phased appropriately and realistically across the 10 year timescale.

Following an internal reorganisation, Surface Transport has established a Borough Cycling Delivery Team, which is responsible for coordinating the delivery of all borough-led cycling projects, i.e. the Central London Grid, the Quietways and Mini-Hollands. This team coordinates delivery activity and ensures its alignment with parallel work taking place on TfL-led schemes such as the Cycle Superhighways, Better Junctions and other major schemes. An experienced interim manager has now been appointed for this team and permanent recruitment is underway.

Regarding the IIPAG's specific comments regarding the deliverability of the Cycle Superhighways programme, members of the IIPAG have since been involved in a number of productive scope definition and risk management workshops, including with the Cycling Commissioner. Actions and decisions generated by the workshops have helped to inform a lower risk and better paced future Superhighways programme.

3.5 IIPAG Benchmarking Report (IIPAG report section 4.3):

- (a) TfL agreed, in the autumn of 2013, the next phase of its benchmarking programme with the IIPAG. The programme, which addresses all of the IIPAG's recommendations from 2013, is progressing to plan. The business

has issued reports on International Metro Benchmarking and International Bus Benchmarking, Unit costs of Infrastructure renewal (including comparisons with Network Rail and other metros), Tube asset maintenance unit costs and performance and stations upgrade unit costs (covering a greatly increased number of activities). In addition, best practice studies have been completed on signalling procurement, implementation of automated train services (via CoMET, the Community of Metros), approaches to predictive and preventative maintenance, as well as a range of studies to support the development of the New Tube for London. The work is continuously reviewed with the IIPAG and monitored formally through the quarterly Benchmarking Steering Group meetings.

- (b) TfL introduced the concept of Repeatable Work Items (RWIs) during the PPP/Periodic Review, and prepared RWI data on a limited number of activities in the 2012 Benchmarking report. TfL also contributed such data to the Cabinet Office's Annual Construction Cost report (May 2012). The scope of RWIs has been progressively expanded, last year being the first time TfL reported extensively on RWI unit costs.

4 Consultation with TfL's Finance and Policy Committee

- 4.1 At its meeting on 5 June 2014, the Finance and Policy Committee considered the IIPAG's Annual Work Plan and Budget for 2014/15. Following due consideration the Committee:
 - (a) noted the paper and endorsed the IIPAG's Work Plan and Budget for 2014/15, prior to its submission to the Mayor for approval.
- 4.2 At its meeting on 17 July 2014, the Finance and Policy Committee considered the IIPAG's Annual Report for 2013/14. Following due consideration the Committee:
 - (a) noted the IIPAG's Annual Report for 2013/14 and endorsed TfL's management response, for approval by the Mayor.