

Date: 13 July 2017

Item: Independent Investment Programme Advisory Group - Review

This paper will be considered in public

1 Summary

- 1.1 This paper presents the Report from the review of TfL's Independent Investment Programme Advisory Group (IIPAG). The review makes a number of recommendations that the Committee is asked to consider.
- 1.2 The IIPAG Review Report was also considered by the Programmes and Investment Committee at its meeting on 27 June 2017. In endorsing the recommendations, the Committee noted that further discussions would take place between the Chief Finance Officer and IIPAG in relation to the future working arrangements, with a view to ensuring flexibility, and this would provide further clarity on how the ability to call upon additional skills and expertise when required would work.
- 1.3 Subject to any further comments by this Committee, TfL will develop an implementation plan for the recommendations made.

2 Recommendation

- 2.1 **That the Committee notes the content of the IIPAG Review Report and endorses its recommendations.**

3 Background

- 3.1 IIPAG was established in May 2010, with no material changes to its Terms of Reference since October 2010. In October 2016 the TfL Audit and Assurance Committee agreed to a proposed review into the role and remit of IIPAG. Further details on IIPAG's background and the motivation for the review can be found in the Review Report and the October 2016 paper to the Audit and Assurance Committee.

4 The IIPAG Review

- 4.1 TC Chew was appointed by the Deputy Mayor as the independent lead for the review. Mr Chew is a senior executive with international experience and is an independent Non-Executive Director of Crossrail 2.
- 4.2 Mr Chew consulted with a range of stakeholders through his review and has prepared a report for the consideration of both the Programmes and Investment Committee and the Audit and Assurance Committee. The details of the approach

taken, the stakeholders consulted and the recommendations made can be found in the Review Report included in Appendix 1.

- 4.3 The members of IIPAG have submitted comments on the review. IIPAG's response is attached as Appendix 2.

5 Next Steps

- 5.1 Mr Chew's recommendations will be considered by the Audit and Assurance Committee at its July meeting.
- 5.2 Subject to views from both Committees, TfL will prepare a plan for the implementation of the reviews recommendations. This will include the documentation needed – which is expected to include a revised Mayoral Direction and Terms of Reference for IIPAG – and a transition plan for the Group to ensure a continued service is provided – a key element of which will be to identify and appoint a Chair.

6 Financial Implications

- 6.1 The review recommends that the IIPAG Budget continue to be set on an annual basis.

List of appendices to this report:

Appendix 1 – IIPAG Review Report
Appendix 2 – IIPAG Response

List of Background Papers:

Mayoral Direction Establishing IIPAG – 28 October 2010
IIPAG Terms of Reference
Audit and Assurance Committee Paper – IIPAG Review – 11 October 2016
IIPAG Review Terms of Reference

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Independent Investment Programme Advisory Group Review

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12 June 2017



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Executive Summary



Executive Summary

Background

In June 2010, TfL acquired Tube Lines Limited, the last Underground PPP company. This followed the acquisition in 2008 of all the assets of the entities running the other two Underground PPPs, known collectively as Metronet, and brought those three PPP arrangements for the maintenance, upgrade and renewal of the Underground under TfL's control.

The PPPs included a contractual regime whereby an independent PPP Arbiter collected and analysed benchmarking data relating to the performance of investment in the Underground under the PPPs. With the unwinding of those PPPs, there was no longer a role for the PPP Arbiter but it was considered by the then Mayor, the Secretary of State for Transport and TfL that there should continue to be expert independent scrutiny of the maintenance, upgrade and renewal of the Underground's infrastructure.

The Investment Programme Advisory Group (IPAG) was formed and its members appointed in March 2010. In October 2010, the then Mayor directed TfL to establish the Independent Investment Programme Advisory Group (IIPAG) to provide independent assurance and expert advice to the Mayor concerning TfL's Investment Programme, including all maintenance, renewal, upgrades and major projects, but not operational issues or the activities of Crossrail Limited. The change from IPAG to IIPAG being made following an agreement in the 2010 Comprehensive Spending Review that the lines of reporting to the Mayor and role of the Secretary of State should be strengthened.

IIPAG therefore provides the "third line of assurance" for TfL's maintenance and capital programme within the "Three Lines of Assurance" framework devised by the Institute of Internal Auditors and recognised as good industry practice. The first line of assurance is provided through project and programme governance arrangements and the second line is provided by the TfL Project Assurance team. The difference between the second and third lines is that the third line is independent of the TfL Executive. The role of IIPAG is set out in detail through the Group's Terms of Reference and the Mayoral Direction. These can be summarised as being to;

- Provide independent assurance and expert advice to the Mayor of London concerning TfL's Investment Programme and assurance to the Secretary of State for Transport that the financial support provided to TfL delivers value for money to the taxpayer;
- Examine and provide commentary on the London Underground draft Asset Management Plans; and
- Direct a team undertaking benchmarking of costs for London Underground, broadening this activity to other areas of TfL as appropriate.
- Oversee the delivery of the TfL Investment Programme;
- Advise on the approval of projects by the TfL Board and/or the Finance and Policy Committee by overseeing the TfL Gateway review process;



Executive Summary

Review origination

Given the passage of time since IIPAG was established and recent changes to TfL's governance, a review of the role and remit of IIPAG is considered to be appropriate and timely. The TfL Audit and Assurance Committee (AAC) commissioned this review to ensure IIPAG continues to support the efficient delivery of TfL's maintenance and capital programme under current governance arrangements and that their remit recognises TfL's organisational maturity.

Review scope

The TfL AAC agreed the scope of this review in their meeting of 11 October 2016. They agreed that the review should consider the role and remit of IIPAG, making recommendations for the future of the group that will ensure it can continue to support the efficient delivery of TfL's Investment Programme as changes to major project and programme governance are implemented.

The Terms of Reference explain that key areas to consider will include;

- IIPAG's activity to date;
- The interface between IIPAG and the second line of assurance;
- IIPAG's role in overseeing the Investment Programme;
- IIPAG's role in benchmarking TfL's costs;
- IIPAG's reporting requirements;
- The balance of IIPAG's workload; and
- The composition and structure of IIPAG.

Review approach

Our approach to this review has been to undertake a desk based review of key documentation, including the documents used to establish IIPAG's remit, examples of the reports IIPAG produce on individual projects and their annual report. Further details of the documents reviewed can be found in Appendix C. The majority of our evidence has then been gathered through a series of interviews and workshops with key stakeholders. Details of interviewees can be found in Appendix B.

Content of this report

This report has been produced with a focus on a series of recommendations that aim to support the continued effectiveness of IIPAG in supporting the delivery of the TfL Investment Programme. The evidence presented therefore focuses on the future rather than providing a detailed account of IIPAG's past performance in delivering their current Terms of Reference.



Executive Summary

Key findings

There is clearly a consensus that there is a need for a third line of assurance relating to the maintenance and capital programme of TfL and that the IIPAG model used currently provides a reasonable balance of scale and cost. There is however a need for IIPAG and TfL to work together more collaboratively to ensure TfL make best use of the IIPAG resource.

We therefore recommend that the role of the current IIPAG be divided, with a core IIPAG Panel being appointed to advise the Board and its Committees at a strategic level and more detailed assurance work and investigations into systemic issues – issues that are seen to recur across the organisation – being undertaken by a Pool of Experts on behalf of the Panel. The Chair of this core Panel should be appointed by the Deputy Chair of the TfL Board. This division of roles aims to strengthen links between IIPAG and its customers and to allow the IIPAG Panel to draw on a wider range of expertise.

The boxes below provide a high level summary of our findings. A full set of recommendations follow on pages 8 and 9 of this report.

Benefits of IIPAG

- TfL spend significant sums of public money. An independent third line of assurance is desirable to make sure value for money is delivered.
- IIPAG supports the TfL Board and its Committees in identifying key risks.
- IIPAG provides an opportunity for TfL to benefit from industry best practice and expertise.
- IIPAG provide a unique cross-cutting view of TfL, allowing systemic issues to be identified and addressed.

Improving the IIPAG model

- Relationships between IIPAG and TfL are not strong. Work to enhance these relationships has begun, however more is needed to ensure TfL make best use of the IIPAG resource.
- TfL's governance structures have recently changed. The IIPAG model and its members should adapt to these changes in order to meet the needs of their core customers.
- IIPAG needs to be able to draw on a range of skills and experience that matches the diverse nature of the TfL Investment Programme. This should include international experience and experience in operating complex transport systems.
- Revised documentation, including a Mayoral Direction, IIPAG Terms of Reference and a Memorandum of Understanding between TfL and IIPAG will be needed in order to implement the recommendations made in this review.



Recommendations



Recommendations

Recommendation

Section A: Working with the Business

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| AI | A Memorandum of Understanding between IIPAG and TfL should be prepared. This should clarify both how TfL should expect IIPAG to engage with them and also how TfL should be expected to work with IIPAG. IIPAG Relationship Champions should be identified to work with colleagues from across TfL to reinforce the Memorandum of Understanding and to help build constructive relationships. |
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Section B: The Three Lines of Assurance

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| BI | IIPAG must form part of the new Risk and Assurance model, taking an active role in the coordination of work across assurance providers. |
| B2 | IIPAG should support the continuous improvement of the first and second lines of assurance. |

Section C: Balance of Work Areas

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| CI | IIPAG should propose a high level annual work plan with input from TfL. This should be considered by the TfL Executive before being put to the AAC for formal approval. The work plan should be reviewed by both PIC and AAC twice per year. |
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Section D: The Breadth of the IIPAG Assurance Remit

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|----|---|
| DI | IIPAG should work collaboratively with TfL to prioritise their work based on the risk to the business. The final determination of the work plan should however remain with the AAC. |
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Section E: Benchmarking and Asset Management

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| EI | IIPAG's role in benchmarking should be to assure the benchmarking process, to advise on the work plan and to produce public reports that help to interpret key information and advise TfL on how they might act on the information. IIPAG's involvement in Asset Management Plans should be limited to specific commissions by either the PIC or the AAC. |
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Section F: Reporting Requirements

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| FI | The reporting requirements contained in the IIPAG Terms of Reference should be adjusted to reflect those outlined in the table in Section F. |
| F2 | The AAC should hold a private meeting with IIPAG annually, in line with the private meetings held with the Director of Internal Audit and CFO. |



Recommendations

Recommendation

Section G: The Role of Government

GI	The Mayoral Direction establishing IIPAG and the IIPAG Terms of Reference should be amended. These amendments should remove the requirement for the Secretary of State for Transport to be involved in the management of IIPAG, but retain an expectation that IIPAG's reports will be shared with the Department for Transport.
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Section H: Governing IIPAG

HI	An IIPAG Panel should be formed to provide strategic advice. This core Panel should draw on expertise from a Pool of Experts for advice on specific issues.
H2	The Chair of the IIPAG Panel should be appointed by the Deputy Chair of the TfL Board. The Chair of the AAC should be responsible for further appointments to the IIPAG Panel. Appointments should be made on the basis of a 2+2 year contract.

Section I: The Affordability and Cost of IIPAG

II	The IIPAG Budget should be agreed annually with the AAC when agreeing to the high level annual work plan.
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Section J: IIPAG Remuneration

JI	IIPAG Panel members remuneration should set in line with that of other TfL advisory groups.
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Key Findings



A. Working with the Business

1. How have IIPAG worked with the business in the past

Interviewees generally agreed that IIPAG have provided useful challenge and added value, however they noted that the quality of intervention varied between projects and members. A range of benefits of IIPAG were identified, including that the direct approach of IIPAG is refreshing and helps to cut through bureaucracy, that IIPAG can help to raise the profile of important issues, that the presence of independent challenge helps to incentivise best practice behaviours and that IIPAG challenge helps to encourage management to stop and think about important issues.

In addition to these high level benefits a number of examples of key successes were noted through the interviews. These include;

- Telecommunications – useful pan-TfL perspective on an area of inefficiency;
- Sponsorship – the separation of Sponsorship and Delivery;
- Risk and Contingency – changes to risk and contingency have been seen to deliver a real benefit to TfL;
- Second Line Assurance – enhanced second line assurance team is delivering a more efficient and improved service to TfL;
- Technology and Data Strategy – useful early input into the technology and data strategy; and
- Planning to Delivery – supported improved handover of projects from planning to delivery.

However the relationship between IIPAG and TfL has prevented IIPAG from adding maximum value. Some interviewees described the relationship as dysfunctional. From the businesses perspective IIPAG have been seen to take an adversarial approach, with members being unwilling to accept the views of others, getting caught up in minor issues and aiming to find fault to report to the Board. These behaviours were, at least in part, driven by the role set for IIPAG by the previous Finance and Policy Committee (F&PC) who demanded a challenging third line of assurance, encouraging IIPAG to look for fault.

A range of interviewees also described a good news culture in TfL. The good news culture results in TfL being unwilling to accept criticism, so preventing TfL from engaging constructively with IIPAG and leading to recommendations being rejected before being properly considered. Not only does this culture lead to potentially beneficial recommendations being missed, but it also prevents IIPAG from performing their role efficiently.

Following changes to TfL's senior management and the Board, relationships with IIPAG do now appear to be improving. Members of IIPAG noted that they have seen a more open and honest approach taken by the current Commissioner and Board members and indicated that a more collaborative approach between the Board and the TfL Executive is expected going forward.

2. Working with the business going forward

With the TfL Board making clear that they expect to have a constructive and collaborative relationship with the TfL Executive it is necessary for IIPAG to also take a more collaborative approach. While in the past their role has been focused on providing assurance to the F&PC, going forward they should see the Executive as being an important customer and to see their role as being both to assure and advise in order to identify and help solve issues. Appendix A provides a summary of IIPAG's customers under these new governance arrangements.



A. Working with the Business

For TfL this will mean improving as a client, ensuring they understand what is being asked of IIPAG and acting on its advice. During our interviews TfL Senior Managers said that once a decision had been taken on a project's preferred option, that project should be progressed as planned and that IIPAG should have no remit in looking back at past decisions. This is clearly misguided, but highlights that more needs to be done to educate TfL staff on how they should be working and how they should understand IIPAG's remit. IIPAG should help to educate their stakeholders in these areas.

TfL will also need to be more open to constructive challenge and willing to listen. Recommendations and advice from IIPAG should be properly considered and when accepted acted on in a timely manner. Where there is disagreement between TfL management and IIPAG there should be a transparent protocol through which recommendations can be escalated. Opening up to challenge will be a big cultural shift for TfL, with the whole organisation needing to see challenge as an opportunity and for individuals to be judged on the action they take to address challenge rather than on the issues raised through the challenge process. In order to help bring about this change we recommend that a number of IIPAG relationship champions are identified who can support the business in understanding the benefit of an external perspective and help to build constructive relationships.

Some interviewees also indicated that they would find it helpful to have a Memorandum of Understanding between IIPAG and TfL. This document should clearly explain what IIPAG expect from TfL to allow them to operate efficiently and how TfL should expect IIPAG to engage with them. This document will help to ensure all parties are aware of the purpose of IIPAG and what to expect. This document should be used to address a number of key issues identified through the review.

- IIPAG should be involved from the initiation of a project to ensure they understand and can advise on decisions being taken;
- TfL should take senior ownership of strategic issues identified by IIPAG, ensuring short term pressures don't prevent action being taken to drive long term improvement;
- IIPAG should direct recommendations at the right people at the right time, ensuring recommendations lead to effective action; and
- There should be regular communication between IIPAG and senior management and the TfL Executive outside of the review process, ensuring time can be taken to discuss and resolve strategic and systemic issues.

Recommendations:

AI: A Memorandum of Understanding between IIPAG and TfL should be prepared. This should clarify both how TfL should expect IIPAG to engage with them and also how TfL should be expected to work with IIPAG. IIPAG Relationship Champions should be identified to work with colleagues from across TfL to reinforce the Memorandum of Understanding and to help build constructive relationships.



B. The Three Lines of Assurance

I. The three lines of assurance model

The three lines of assurance model is seen as industry best practice and is followed by TfL. IIPAG provide the independent third line of assurance to TfL. Other organisations, including the Singapore Land Transport Authority (LTA) and Hong Kong MTR, have adopted the concept of International Expert Panels (IEP) to provide management with both technical/project management and programme assurance. Some examples of such panels are listed below for reference:

- IEP consisting of 3 panel members on constructability and geotechnical for the five major rail projects undertaken by MTR since 2009;
- IEP on civil engineering, tunnelling and underground construction cum design for all LTA major projects;
- IEP on Railway Asset Performance and Management enhancement for Singapore LTA; and
- IEP on Malaysia-Singapore High Speed Rail procurement and implementation processes for Singapore LTA.

While panels such of these provide a useful assurance model in some circumstances, we believe that the IIPAG model provides a better fit with the needs of TfL and its diverse capital portfolio. These panels may however be used to supplement the IIPAG model when needed and could be formed using the proposed IIPAG Pool of Experts.

Following recommendations from IIPAG, TfL have strengthened their second line. While IIPAG may scale back efforts in some areas by making better use of the output from an enhanced second line, there remains a need for an independent third line to ensure appropriate accountability for the spending of significant sums of public money. Input from IIPAG should also be reduced when the role of the third line of assurance is being provided by another group, for example an independent project board for a mega project.

The transformation programme will impact on assurance by bringing together the assurance, audit and strategic risk functions to improve coordination, reduce duplication and better inform the assessment of risk. IIPAG will need to form part of this new model. The improved coordination across assurance activity will also address issues raised by interviewees. Specifically this will provide a single resource with which to track recommendations and will improve planning by creating a single assurance and audit plan for each programme. This will also help to improve the coordination of reporting, ensuring simple and easy to follow products are produced that minimise repetition whilst maintaining the separation of roles.



B. The Three Lines of Assurance

2. Assuring the first and second lines

An important role for the third line of assurance is to assure the first and second lines, however IIPAG's input in this area has been light touch to date. Interviewees highlighted a number of issues with the first and second lines that IIPAG should take a role in resolving. Specifically;

- First line – Interviewees commented that the first line of assurance and project management controls function lack maturity and that they might expect the first line to undertake more of the detailed investigatory work currently undertaken at the second line. Interviewees commented that they would appreciate guidance from IIPAG on industry best practice in this area.
- Second line – Interviewees noted that the recent changes to the second line are still bedding in, but are providing TfL with an improved service. However a number of interviewees commented on the quality of the External Expert reports produced for the second line, noting that these can be of a poor quality and can appear to be a box ticking exercise by the External Expert who is generally looking to please TfL rather than challenge.

IIPAG's role in assuring the first and second lines should be enhanced, with IIPAG supporting the continuous improvement of the first and second lines through mentoring and by providing advice on industry best practice. IIPAG should report to the AAC on the effectiveness of the TfL assurance regime.

Recommendation:

B1: IIPAG must form part of the new Risk and Assurance model, taking an active role in the coordination of work across assurance providers.

B2: IIPAG should support the continuous improvement of the first and second lines of assurance.



C. Balance of Work Areas

1. Areas of work

There is a range of areas of work that IIPAG may be involved in. These include;

- Assurance of projects;
- Assurance of the TfL Investment portfolio;
- Benchmarking advice.
- Assurance of programmes;
- Deep dives into systemic issues;
- Assurance of maintenance activity;
- Assuring the first and second lines; and

When setting their work plan IIPAG should consider how to balance work in each of these areas to ensure their value added is maximised.

2. Assurer or advisor

A number of interviewees suggested that IIPAG should perform an advisory rather than assurance role. While IIPAG should be aiming to support TfL by providing advice, ultimately their primary function is to provide assurance to the TfL Board. This needs to be clearly explained to TfL staff so that they understand IIPAG's role, their reporting lines and how they might expect IIPAG to work with them.

3. Resource allocation

IIPAG's past focus has been project level assurance reviews, with the time required for these determining how much time is available to look at those systemic issues seen to be occurring across the TfL portfolio. When considering how to allocate resource between areas of work, IIPAG should consider how to make best use of the outputs from other assurers and where they might add most value. Specifically, as the second line strengthens we might expect IIPAG to step back from project level work to focus on assuring the first and second line assurance processes and cross-cutting strategic and systemic issues.

4. Work planning

The IIPAG work plan should be set annually. This should be developed by IIPAG in collaboration with the TfL Executive, allowing TfL to provide input into planned work but ultimately IIPAG should be responsible for their proposals. After being discussed with the Executive this work plan should then be agreed with the AAC. This should be a high level work plan, explaining how much resource is required for IIPAG to perform their role and the balance of activity across their areas of work.

There is however a need for flexibility to allow IIPAG to react to changing business priorities and to allow the Programmes and Investment Committee (PIC) and the AAC to commission specific pieces of work when required. The IIPAG work plan should therefore be reviewed twice per year by the PIC and AAC to ensure the priorities remain current and to allow the Committees to consider further commissions as necessary.

Recommendations:

CI: IIPAG should propose a high level annual work plan with input from TfL. This should be considered by the TfL Executive before being put to the AAC for formal approval. The work plan should be reviewed by both PIC and AAC twice per year.



D. Breadth of IIPAG Assurance Remit

1. The current role of IIPAG in assuring the TfL investment portfolio

IIPAG's assurance work has previously focused on projects with an Estimated Final Cost (EFC) over £50m, with some flexibility applied to capture higher risk, lower value projects. Following the reduction to the IIPAG budget in 2016/17, IIPAG have taken a more rigorous approach to determining which projects they look at based on the risk posed to the business. Following the changes to governance that have led to the PIC providing authority based on portfolios rather than projects, IIPAG have also been involved in the programme reviews undertaken by the second line of assurance.

2. The future role of IIPAG in assuring the TfL investment portfolio

The approach taken by IIPAG in future should align to their customer's requirements. The key change to IIPAG's assurance work will be to provide advice on the portfolios of work being considered by the PIC rather than individual projects. IIPAG should continue to review some of the projects within the portfolios, ensuring they have a detailed understanding of key issues and can use this understanding to inform higher level advice on portfolios and systemic issues.

In order to determine how much resource to devote to a specific project or programme IIPAG should continue to take a risk based approach. The approach should be developed in collaboration with the Executive Committee of TfL, with TfL needing to provide IIPAG with accurate information on which to base the risk assessment. This might include IIPAG being informed by the risk classifications considered by the Project Management Office and by Project Assurance. However, given IIPAG are independent, they should ultimately retain the freedom to determine how they allocate their resource to best meet their remit.

When considering the level of risk associated with a project IIPAG should consider;

- Cost;
- Schedule;
- Portfolio diversity;
- Complexity;
- Link to Mayoral priority; and
- The level of assurance being provided through other mechanisms.

Interviewees clearly felt that there was a need to continue to provide assurance through reviews at the programme and project level. Interviewees also suggested that IIPAG provide strategic advice on the setting of the 5 year Business Plan and Mayor's Transport Strategy. Providing this scrutiny of financial authority would provide reassurance that the portfolio of work being set for the business is affordable, deliverable and aligns well with the organisational objectives. Interviewees commented that the die is often cast for a project at this point and so further scrutiny in these very early phases is necessary to ensure best value for money is delivered.

Recommendation:

DI: IIPAG should work collaboratively with TfL to prioritise their work based on the risk to the business. The final determination of the work plan should however remain with the AAC.



E. Benchmarking and Asset Management

I. Benchmarking

IIPAG's Terms of Reference make IIPAG responsible for the direction of a team undertaking the benchmarking of the costs of maintenance and project delivery on the London Underground network. While IIPAG do not see their current role as being to direct benchmarking, they are heavily involved in benchmarking, chair the Benchmarking Steering Group and approve the annual benchmarking work plan.

Both IIPAG and TfL management agree that IIPAG's independence adds value to the benchmarking work and that a constructive and collaborative approach has been taken. TfL management highlight that independence brings credibility to the benchmarking activity and encourages action to be taken on the back of its conclusions. IIPAG members noted that their independence has allowed them to communicate messages that TfL might otherwise find difficult, which aids transparency and accountability and helps to ensure issues get the attention they need.

It is clear that there is value in having an independent party involved in TfL's benchmarking activity. While other groups may be able to provide this independence, there is an important link between IIPAG's work on benchmarking and assurance. These links help IIPAG to encourage action to be taken on the recommendations of the benchmarking work and we recommend that IIPAG remain involved in this work.

However, with TfL's benchmarking function now seen as business as usual, IIPAG should step back from the day to day management and not be expected to direct benchmarking activity or chair the Benchmarking Steering Group. The role of IIPAG should focus on assuring the benchmarking process, contributing to discussions around the work plan and using their independence to produce public reports on the output from the benchmarking work. These reports should be focused on interpreting key information for senior audiences – such as the TfL Board – and advising these stakeholders on how to act on the information.

2. Asset Management

The current IIPAG Terms of Reference include the requirement that IIPAG examine and comment upon the draft Asset Management Plans relating to the infrastructure of London Underground. IIPAG's main contribution in this area came from a piece of work undertaken in 2012/13, where they made over 30 recommendations. IIPAG members felt that this work didn't add significant value for the resource required. TfL management have also indicated that IIPAG wouldn't be expected to add significant value in this area and that they learn more from their peers in other organisations.

Given the resource and the level of expertise that would be required to add value to TfL, this is not currently seen to be a good use of IIPAG's limited budget. We therefore propose that work in this area should not be seen as a core part of the IIPAG remit but rather being commissioned on the basis of a specific concern or insight.

Recommendation:

EI: IIPAG's role in benchmarking should be to assure the benchmarking process, to advise on the work plan and to produce public reports that help to interpret key information and advise TfL on how they might act on the information. IIPAG's involvement in Asset Management Plans should be limited to specific commissions by either the PIC or the AAC.



F. Reporting Requirements

1. Current reporting requirements

The Mayoral Direction establishing IIPAG requires the group to publish an annual report to the TfL Board on the overall delivery of the investment programme. Interviewees noted that production of this report could be more collaborative, allowing issues to be resolved quickly and ensuring the product published and sent to the TfL Board is accurate. This lack of communication combined with TfL's good news culture results in a management response that has often then been a rebuttal. This response in turn hasn't helped to break the cycle of poor communication.

IIPAG also produces written reports following their reviews of projects. These reports provide a summary of the project, the review undertaken and a series of recommendations. Feedback on the quality of these reports noted that they can be poorly written, are late to arrive, don't always align with the discussions in the review meetings and that IIPAG are unwilling to take on comments where issues have been misinterpreted. Interviewees commented that they would like to see a more collaborative approach, ensuring that reports are accurate. Some also suggested that a set template for these reports would be helpful, building on the condensed reports now produced by the second line of assurance.

2. Future reporting requirements

Appendix A explains that IIPAG have a number of customers, each with a different requirement or objective. The table below outlines a series of reports that should be produced by IIPAG to meet the needs of these customers. This table indicates who should be considered to be the primary audience for each report, however we would note that the other users may be equally important, should be consulted on the detail of the planned reports, and may also be responsible for taking action on the back of recommendations. In addition to producing papers, the Chair of IIPAG should also attend meetings of PIC and AAC.

Product	Primary Audience	Other Users	Description
Project Review	Programme Board	PIC	- Short report building on the work of the second line. - Cross cutting focus on transferable lessons and systemic issues. - Management response to explain action being taken or why disagree with specific recommendations.
Programme Reviews	PIC	Programme Board TfL Executive	- Short report focused on programme level issues. - Follows dashboard approach used by PIC, with a template used to aid consistency. - Raises issues not agreed by management at project level for discussion.
Quarterly Report	AAC	TfL Board TfL Executive	- Output from work on systemic issues and assurance of first and second lines. - Identification of new systemic issues and proposed next steps. - Log of overdue actions from project and programme reviews. - Log of recommendations from project and programme reviews not adopted by management.
Benchmarking Report	TfL Board The Public	TfL Executive	Public report interpreting benchmarking data at highest level, explaining next steps and actions needed.



F. Reporting Requirements

3. Future reporting principles

As well as aligning the reports produced with IIPAG's customers requirements, it is important to address concerns about the way in which reports are produced.

- IIPAG reports should be concise, offer a different perspective to those produced by the second line of assurance, and should focus on the most important issues.
- IIPAG should direct advice and recommendations to those able to take action to address IIPAG's concerns. Interviewees noted that recommendations have been directed to them over which they had little control – for example a political decision. Directing recommendations at the wrong level undermines IIPAG's credibility and ability to work constructively with TfL.
- There should be an expectation that issues are resolved before being taken to either the PIC or the AAC, with areas of disagreement only being escalated following constructive engagement with TfL.

4. Management response to recommendations

To make the best use of IIPAG, TfL management and IIPAG must take time to fully consider and discuss the issues raised through IIPAG's reviews. This should be with an aim to reach agreement before issues are reported to either the PIC or the AAC. The approach being taken by the PIC to providing programme authority should help to provide this time by de-linking authority decisions from key milestones in a project's timeline.

It is however important for management and IIPAG to be able to disagree. This should be expected on occasion and is part of the purpose of the third line of assurance. When there is disagreement the issue should be referred to the relevant Board Committee for a decision. This might include disagreement over a particular recommendation or the way in which it is being implemented. Interviewees noted that in the past management have chosen to accept or note recommendations that they had no intention of implementing. This is not acceptable. Any actions agreed to by TfL should have specific owners identified and those owners should be held to account for the delivery of the agreed action by the AAC.

Recommendation:

F1: The reporting requirements contained in the IIPAG Terms of Reference should be adjusted to reflect those outlined in the table in Section F.

F2: The AAC should hold a private meeting with IIPAG annually, in line with the private meetings held with the Director of Internal Audit and CFO.



G. The Role of Government

I. The past role of Government

The role of the Department for Transport and the Secretary of State was set as a condition of the Government's investment in TfL's infrastructure. The role of the Secretary of State included;

- Agreeing shortlists of potential members;
- Approving the IIPAG Terms of Reference;
- Being consulted on the annual programme of work and any significant changes to this;
- Being notified of areas of significant concern when notifying the Mayor of London; and
- Receiving reports sent to the Mayor of London.

These requirements aimed to provide the Secretary of State with reassurance that TfL's use of taxpayers money represents good value for money. Since 2010 the level of funding provided by Government has been reduced, with the General Grant being reduced from £1.9bn in 2011/12 to £0 by 2018/19. While the Secretary of State will continue to have an interest in the remaining c.£1bn per annum of investment grant, the level of control over this is expected to reduce going forward as the Government's plans for devolution include replacing this Investment Grant with devolved business rates.

2. The future role of Government

As a result of the changes to funding and devolution of accountability to the Mayor of London, the Department for Transport have suggested that they should no longer be involved in determining how IIPAG operate, for example by agreeing to shortlists of candidates or approving the Terms of Reference and would prefer to be provided with information to give reassurance that robust assurance processes are in place.

There is however a need to continue to share IIPAG's reports, reinforcing a principle of partnership and transparency between TfL and the Department for Transport. Sharing these documents will provide the Department with reassurance that TfL are operating effectively and allow lessons to be shared across the transport sector. It was noted during our interviews that reports hadn't been systematically shared with the Department in the past and this should be corrected going forward.

Recommendation:

G1: The Mayoral Direction establishing IIPAG and the IIPAG Terms of Reference should be amended. These amendments should remove the requirement for the Secretary of State for Transport to be involved in the management of IIPAG, but retain an expectation that IIPAG's reports will be shared with the Department for Transport.



H. Governing IIPAG

I. IIPAG structure

The Chairs of the PIC and the AAC indicated that they would support a more flexible model for IIPAG. Other interviewees agreed that there would be a benefit to having a wide pool of experts to draw on to provide the best advice on issues from all areas of the TfL Investment Portfolio. To facilitate a more flexible approach to resourcing and ensure IIPAG are able to draw on the expertise they need for any given issue we recommend that a future IIPAG consist of a core IIPAG Panel of around six members who should have experience in operating in senior positions in the transport sector (both as customer and supplier). Around half of these individuals should bring international experience to facilitate further knowledge sharing. This group would provide the high level strategic thinking being demanded by TfL and the Board. The time commitment from this group should be limited to around two days per month with meetings scheduled well in advance. As such this group would be expected to act more like non-executives, which we might expect to have an impact on remuneration (discussed in the next section).

This group would then be able to draw on expert advice from a Pool of Experts who are senior industry figures and subject matter experts to deliver their remit. This would allow for a much larger pool of experts to be considered for work, ensuring the best person for each assignment can be found. We might expect work on project/programme level assurance, more in depth reviews of strategic and systemic issues and specific assignments requested by the PIC or the AAC to be commissioned from this pool of experts by the IIPAG Panel. The diagram in Appendix E explains how this model might work.

2. IIPAG Chair

The role of the IIPAG Chair is vital, with a credible and respected figure needed to set the direction for IIPAG, empower members and ensure action is taken on the back of their recommendations. In the past the role of Chair has required a notable time commitment as a result of them being involved in the day to day review work of the group. This has made it difficult to find a Chair of the right level who is able to commit sufficient time to the role. Going forward we recommend that a Chair be appointed by the Deputy Chair of TfL.

It will be important for the Chair of the IIPAG Panel to have a close working relationship with both the members of the PIC and the AAC. This is both needed to ensure IIPAG are provided with a clear direction and also to ensure IIPAG are respected and listened to appropriately. The Chairs of both Committees and IIPAG should therefore take responsibility for maintaining these relationships and ensuring IIPAG can deliver the service the Committees need. This could include tripartite meetings between the Chairs of the PIC, AAC and IIPAG.

While we might anticipate IIPAG's primary relationship to be with the PIC and the AAC, the IIPAG Chair may also raise issues with the Chair and Deputy Chair of the Board, or example to raise significant issues from their quarterly report. Equally the Chair or Deputy Chair of the Board may request advice from IIPAG.



H. Governing IIPAG

3. IIPAG member composition

In order to fulfil their role IIPAG needs to be able to draw on a wide range of skills and experience to match the diverse nature of the TfL Investment Portfolio. Interviewees commented that the skillset of the current group is largely engineering focused and that members' specific skills have been driving the areas of work being prioritised. It was suggested that IIPAG should be able to draw on a wider pool of skills and that flexibility is needed to ensure the best advice can be provided in each circumstance. A number of interviewees also noted that IIPAG's diversity should be considered.

The proposed IIPAG Panel should bring a range of skills, ensuring members have senior management experience of operating in a complex transportation business, such as TfL, as well as experience from the transportation supply chain. These individuals should bring both vital industry knowledge and also the soft skills needed to develop constructive working relationships with TfL and the Board Committees.

To ensure members of the IIPAG Panel continue to add value it will be important for them to bring experience of latest best practice. Given the pace of change in the transport sector we therefore recommend that appointments are made on the basis of a 2+2 year contract to ensure suitable churn of knowledge and experience.

The IIPAG Panel should then be able to draw on a Pool of Experts for advice on specific issues. This Pool of Experts could be as wide ranging as is necessary, with some experts involved in long term assignments (e.g. for scrutiny of benchmarking or a series of third line assurance reviews) and others perhaps only used for one specific piece of work (e.g. looking at a specific systemic issue).

Examples of the skill sets that may be sought for appointment to the IIPAG Pool of Experts include;

- Transport planning and urban development;
- Financial management;
- Project controls; and
- Organisational change;
- Commercial and contract management;
- Engineering.

4. Appointments

Past appointments have not been administered to an acceptable standard, with one interviewee describing the process as shambolic with recent recruitments taking a year to complete and it taking six months to inform candidates who were unsuccessful. This standard of service is not appropriate for the senior individuals being sought for these roles. The appointment of the IIPAG Chair should be made by the Deputy Chair of the TfL Board and appointments to the panel by the Chair of the AAC. These recruitments should be administered with support from TfL and should be informed by advice from key stakeholders including the PIC, AAC, TfL Executive and IIPAG Chair.

Recommendation:

H1: An IIPAG Panel should be formed to provide strategic advice. This core Panel should draw on expertise from a Pool of Experts for advice on specific issues.

H2: The Chair of the IIPAG Panel should be appointed by the Deputy Chair of the TfL Board. The Chair of the AAC should be responsible for further appointments to the IIPAG Panel. Appointments should be made on the basis of a 2+2 year contract.



I. The Affordability and Cost of IIPAG

I. The IIPAG budget

The IIPAG budget should be agreed annually, with TfL being required to provide IIPAG with the budget necessary for it fulfil the role required in the Mayoral Direction. The IIPAG budget has undergone a number of changes in the past year. In 2015/16 IIPAG cost £489k, with their budget for 2016/17 then reduced to £395k (excluding the cost of National Insurance and the part time IIPAG support staff). While the process through which the IIPAG budget was reduced had a negative impact on the relationships between TfL Senior Management and IIPAG, there is agreement that the reductions have helped to focus minds and to reduce the IIPAG management overhead.

Through our interviews there were no comments that the current level of expenditure on IIPAG is inappropriate, with some of the TfL Executive team commenting that the cost of IIPAG is modest given the scale of the investment programme. The IIPAG model is seen to be relatively light touch and the cost of a more formal model or getting a similar output through consultancy could be much higher.

A number of interviewees also commented that IIPAG did not always have the time to fully understand issues and to read all of the required background material. TfL management found this frustrating as it leads to reports and recommendations that may not be as well informed as they could be. While it is important to ensure that IIPAG offers an efficient and good value for money service, it is important to ensure that they are provided with sufficient resource to undertake the role effectively.

Going forward we recommend that the IIPAG budget is agreed annually with the AAC when agreeing the work plan. The IIPAG Chair should then be responsible for delivering to this budget and allocating the resources needed to deliver the work plan.

Recommendation:

II: The IIPAG Budget should be agreed annually with the AAC when agreeing to the high level annual work plan.



J. IIPAG Remuneration

1. Current remuneration

Current IIPAG members are paid at a rate of between £900 and £1,000 per day plus expenses. Some IIPAG members noted that this is the rate charged for other work, while others charge a higher rate to other clients, including other public sector organisations in a similar field. Members' motivation to undertake work for IIPAG differs, however it was noted that this isn't an area that they would prioritise for pro-bono work. Some interviewees felt that the IIPAG remuneration rate is generous compared to other advisory groups and the rates paid to, for example, non-executive directors. Interviewees also noted that the IIPAG rate had been protected while reductions in rates had been seen elsewhere in the public sector.

2. Future remuneration

The separation of the higher level strategic role from the more detailed review role will allow remuneration to be more closely matched to the roles being completed. The IIPAG Panel role would more closely resemble that of a non-executive director, with a limited time commitment expected and long term certainty provided over the meeting requirements. This would compare to the detailed review role where there would be an expectation that work could be completed at relatively short notice and where the time commitment for the period of the commission could be significant.

The role of an IIPAG Panel member may therefore closely resemble that of another of TfL's advisory groups. Appendix D provides some comparable information that may be used to benchmark remuneration for this group. These benchmarks should be considered as a guide to remuneration with lower or higher rates being considered in differing circumstances. For example a lower rate may be possible as part of a knowledge sharing arrangement with other large transport organisations or a higher rate may be required for a very specific skill set.

Rates for the pool of experts will vary by assignment and by skill set required. The TfL Assurance and Quality Management Framework used to retain External Experts for the second line of assurance has an average day rate for a Director of £925 and Principle Consultant of £761. A similar Central Government Framework used by the Infrastructure Projects Authority for assurance reviews has a day rate for a Review Team Leader of £997.56 and for a Review Team Member of £862.56. A similar framework should be established for the IIPAG Pool of Experts, allowing them to make appointments for third line assurance reviews and other work on systemic issues. We might expect the rates for third line assurance work to be similar to those for the second line assurance framework but that higher rates may be demanded where there is a need for a very specific skillset.

Recommendation:

J1: IIPAG Panel members remuneration should set in line with that of other TfL advisory groups.



Appendices



Appendix A: IIPAG's Customers

In the past IIPAG have seen the Mayor and the F&PC as being their primary customer and as such have produced their reports and recommendations with this audience in mind. Going forward IIPAG should consider a wider pool of customers, focusing on how to work with each of these groups to deliver most value.

Customer	Role
The Public	To see the IIPAG Quarterly Report and be provided with reassurance that TfL is using public money effectively.
The Mayor of London	To receive briefing from IIPAG on key issues when appropriate as Chair of the TfL Board.
The Deputy Mayor for Transport	To receive briefing from IIPAG on key issues upon request as Deputy Chair of the TfL Board.
The Secretary of State for Transport	To be reassured that effective assurance regimes are in place by receiving copies of the IIPAG Quarterly Report and the Programme Reports.
The TfL Board	To receive the IIPAG Quarterly Report and to be advised on key issues for discussion by the AAC and the PIC.
The Audit and Assurance Committee	To oversee the effectiveness of the TfL assurance regime, to consider IIPAG's advice on the effectiveness of the first and second lines of assurance. To monitor how TfL are acting on IIPAG's recommendations. To consider systemic issues identified by IIPAG. To provide clearance for the Quarterly Report to be submitted to the Board and be published. To approve the annual work plan.
The Programmes and Investment Committee	To consider IIPAG's advice on the programmes that form the TfL Investment Portfolio. To determine how to progress issues of disagreement between TfL Executive and IIPAG. To consider systemic issues identified by IIPAG.
The TfL Executive	To consider systemic issues identified by IIPAG and work with IIPAG to develop and implement a plan to resolve these issues. To seek to resolve disagreement between IIPAG and TfL Management.
TfL Management and Programme Boards	To inform IIPAG and to implement recommendations.



Appendix B: Interviewees

TfL Board Members

Val Shawcross CBE – Deputy Chair of TfL.

Anne McMeel – Audit and Assurance Committee Chair

Professor Greg Clark CBE – Programmes and Investment Committee Chair

TfL Chief Officers

Mike Brown MVO – Commissioner

Ian Nunn – Chief Finance Officer

Howard Carter – General Counsel

Leon Daniels – Managing Director, Surface Transport

Michelle Dix – Managing Director, Crossrail 2

Vernon Everitt – Managing Director, Customers, Communication and Technology

Mark Wild – Managing Director, London Underground

Department for Transport

Patricia Hayes – Director General, Roads, Devolution and Motoring

Rupert Furness – Deputy Director, London and the South Division

Rachael Gilbert – Head of TfL Funding, Regional Strategies

IIPAG Members

Colin Porter – Spokesperson

Terry Fitzgibbon

Ian Fugeman

Paul Jenkins

David Meyer

Chris Shoukry

Mike Woods

TfL Management

Andrew Anderson – Head of Sponsorship Customer Experience

Alex Batey – Lead Sponsor Trains

Michael Bridgeland – Head of Project Assurance

Bruno Carr – Lead Sponsor Communications Network

Andrea Clarke – Director Legal

Tanya Coff – Finance Director, Rail and Underground

Patrick Doig – Finance Director, Surface Transport

Christian Fowler – Lead Sponsor SSU

Martin Gosling – Head of Programme NLE

Jenny Hamilton – Lead Sponsor Station Capacity

Chris Hobden – Head of Programme 4LM

Fiona Jackson – Lead Sponsor London Rail

Maureen Jackson – Head of Capital Projects Finance

Alan Kirk – Head of Commercial Line Upgrades

David Leaper – Lead Sponsor WCC

Adrian McCrow – Head of Asset Investment

Stephen Miller – Lead Sponsor Train Systems

Charles Mills – Head of Programme Delivery

Kevin Moore – Lead Sponsor New Tube for London

Gareth Powell – Director of Strategy & Contracted Services

Paul Roberts – Lead Sponsor Cycle Hire

David Rowe – Head of Infrastructure Sponsorship

Arran Rusling – Commissioning Manager

Graeme Shaw – Head of PMO

Aydin Sheibani – Head of Benchmarking

David Stacey – Head of Finance

Subash Tavares – Head of Portfolio Management

Shashi Verma – Chief Technology Officer & Director of Customer Experience

Clive Walker – Director of Internal Audit

Martin Woodruff – Head of Projects and Programmes Silvertown

Matt Yates – Head of Transport Planning and Projects



Appendix C: Documents Reviewed

IIPAG Annual Reports

IIPAG Biographies

IIPAG Project Reports

Mayoral Direction establishing IIPAG

The IIPAG Terms of Reference

IIPAG Member Appointment Letters

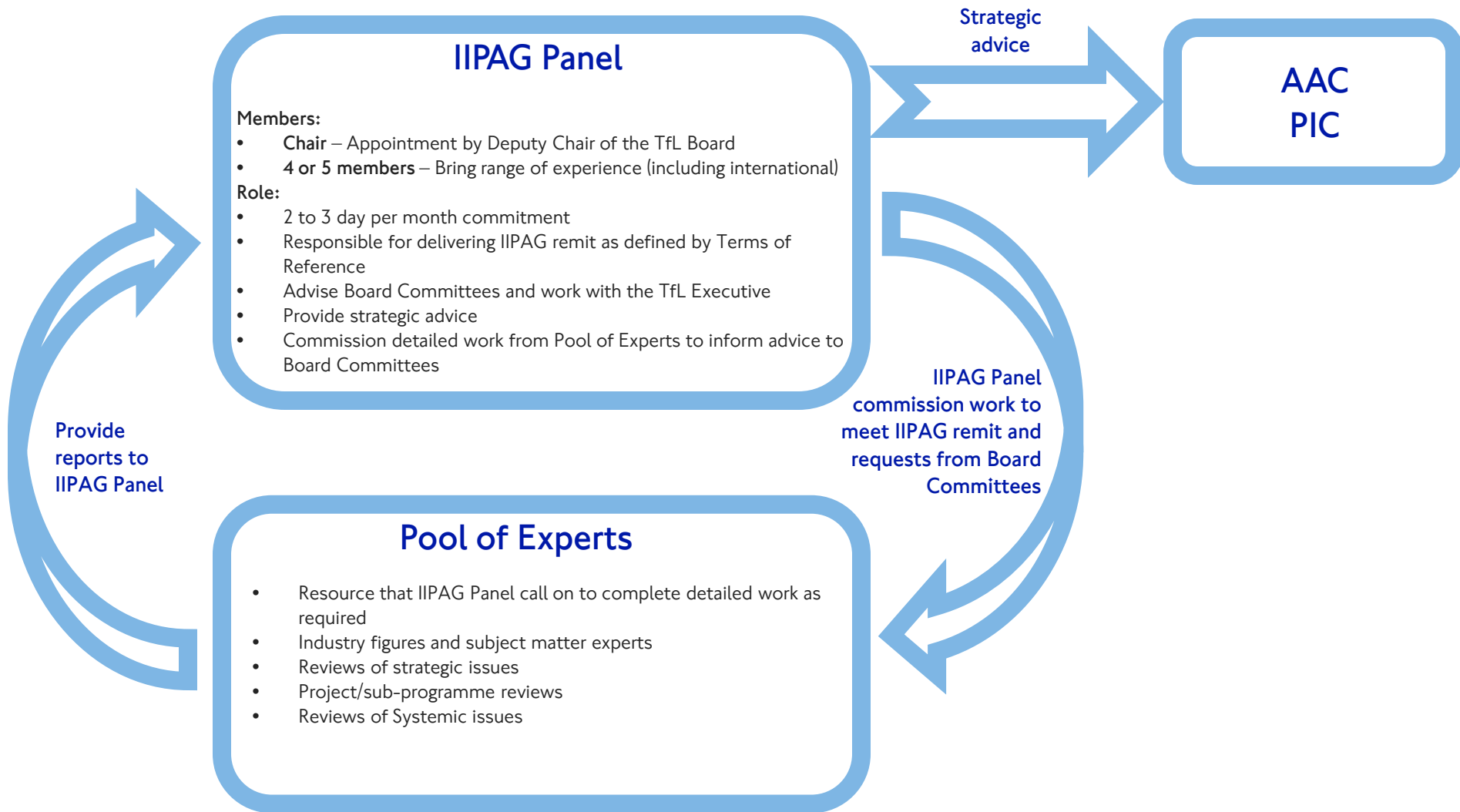


Appendix D: Benchmarking of Rates

	Rate
TfL Board	£16,000 - £20,000 per annum 2-3 days per month
Commercial Development Advisory Group	£1000 per day - Chair £860 per day – Member
Independent Disability Advisory Group	£600 per day – Chair £400 per day – Member
Crossrail Board	£1000 per day
Crossrail 2 Programme Board	£1000 per day



Appendix E: IIPAG Model Diagram



INDEPENDENT INVESTMENT PROGRAMME ADVISORY GROUP**IIPAG's Response to the IIPAG Review Report dated 1 June 2017**

Overall View

There are few major issues with the contents of the report, from a factual point of view. It is said that some within TfL hold the view that IIPAG members are unprepared for reviews and that relationships between IIPAG and TfL are not strong. That is of concern to IIPAG which generally works closely with the Project Assurance team within TfL and with the project team members it interfaces with, in our view.

The report is in general positive about the role that IIPAG plays and the need for such a role, and does not identify any major or significant changes in the remit for IIPAG. It does highlight some of the working relationship issues, which we feel is something which was more of an issue in the past. It has to be remembered that IIPAG is an **independent** group of people and given the good news culture which existed in at least parts of TfL, and the relationship with the previous Finance & Policy Committee (FPC), it is perhaps no surprise that from time to time, there have been clashes.

The majority of the TfL employees who were interviewed have little direct interface with IIPAG, and some key managers and directors directly accountable for delivery were not represented. Neither were any past members of FPC interviewed, despite our request that at least one of them be approached.

In addition, there is no reference to the various comments made, over time, by the London Assembly on the operation and effective use of IIPAG.

The logic for arriving at the recommendation to change how IIPAG operates by dividing the core role is far from clear to us, and there are some factors which do not seem to have been taken into account in arriving at this recommendation.

Executive Summary

In the key findings section, we have major reservations about the practicability (or need) to split the IIPAG core function. In IIPAG's view it will add cost, reduce accountability and deny the business the benefit of a process by which IIPAG members are involved in all aspects of the business, from the shop floor to the boardroom so to speak, and are able to bring the knowledge they gain at individual project level to bear on the broader strategic aspects of the business. The present and recent past members of the team do have wide and in-depth experience in many but not all disciplines, with a considerable degree of international exposure. On only one occasion in the past has that been supplemented by buying in specialist contract and legal advice for a signalling contract. However subsequently an IIPAG member was recruited with that expertise. The one area in which IIPAG members have limited experience is transport planning and urban development, and this was recognised some years ago, but there was no success by TfL with recruitment for this specialism. Following the departure of two IIPAG personnel in 2016, and in particular with the loss of Ian Fugeman at the end of June 2017, we will be very light on major civil engineering programme management domain knowledge, and this is an area which needs urgent attention given the volume and cost impact of TfL's traditional multidisciplinary construction activities.

IIPAG's Response to the IIPAG Review Report dated 1 June 2017

The report concedes that recruitment of IIPAG team members has not been easy in the past. We believe this is due to the way the recruitment process has been handled by TfL rather than the unavailability of suitable resource.

The hiring in of external experts (EE) for project reviews is done by Level 2 Project Assurance (PA), using the TfL call-off contract arrangements, and in the main, in our view is appropriate. The EE's reports can be of variable quality but as a completed report of an assessment, it forms the basis of the Level 2 Assurance Review and it is essential for the effective participation by IIPAG in the review process.

The identification of systemic and strategic issues arises from the participation in the detailed level reviews by IIPAG members, and because of their experience, they have, in the past, identified a wide range of systemic and strategic issues, some of which have been looked into in more detail, and others have not. We think there are only a finite number of systemic issues, and we must have identified at least most of them. These issues have been identified by IIPAG through asking questions, and pushing for resolution.

Detailed Recommendations

We have no significant issues with recommendations A1, B1, B2, C1, D1, E1, F1, F2, G1, H2, and I1.

For recommendation H1, regarding forming an IIPAG panel, our comments above apply. We believe that the Programmes and Investment Committee (PIC) provides the requisite Non-Executive Director level review capability and that should not be duplicated by IIPAG. It is the IIPAG and TfL Executive role to support that capability. In addition, the report does not provide any indicative costings for the model proposed. The continuity provided by IIPAG over the years, with a slow, but steady turnover of members, has been very important when reviewing projects which, in the main, take many years from conception through to delivery.

For recommendation J1, remuneration, there is nothing in the report which states that IIPAG rates are the same now as in 2010, despite the impact of inflation. The present IIPAG rates are roughly in line with the rates paid to consultancies for Director level roles, and we would argue that our collective experience and maturity is probably at a higher level than those roles, and we believe TfL would have difficulty recruiting if it paid significantly below the market rates. We also note that the affordability of IIPAG (detailed in section I) does not appear to be an issue which was raised during the interviews, in fact almost the opposite.

Final Comments

The revised way of working with PIC is starting to settle down. We firmly believe relationships between IIPAG and TfL have improved in recent times, and we see little benefit and some significant problems in making the changes proposed to the way IIPAG is organised and operates. We would welcome the opportunity to discuss the report with the author and the Audit and Assurance and Programmes and Investment Committees before any final decisions are taken.