Programmes and Investment Committee

Date: **2 March 2022**

Item: **Enterprise Risk Update – Delivery of Key Projects and Programmes (ER8)**

This paper will be considered in public

1 Summary

1.1 As part of TfL's risk management process, the Programme and Investment Committee oversees the "Delivery of TfL key investment programmes" (Enterprise Risk 8).

1.2 This paper provides an update on how TfL manages the risk across its capital delivery.

1.3 A paper is included on Part 2 of the agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 The Committee is asked to note the paper and the exempt supplementary information provided on Part 2 of the agenda.

3 Background

3.1 A comprehensive review of ER8 introduced new causes, controls and mitigations resulting from the current short-term funding position, the prevailing market conditions and the requirement to deliver to a "managed decline" scenario.

3.2 The ongoing funding challenges and consequential short-term budgets severely impact the delivery of TfL projects and programmes, compromising effective internal decision-making, the ability to prioritise programmes and projects with certainty and make longer term commitments.

3.3 Brexit and the coronavirus pandemic continue to compound global supply chain concerns. In conjunction with TfL's current short-term funding settlements, suppliers continue to adopt a more cautious approach when dealing with TfL. The Procurement and Supply Chain department continues to identify, track and manage these risks proactively, details of which are available through the risk registers maintained for each major project.

4 Overall Control Effectiveness Rating

4.1 Although robust controls remain in force, the consequence of the factors outlined in section 2 have manifested in the Enterprise risk rating deteriorating from being "Adequately Controlled" to "Requires Improvement". There will be considerable pressure in the coming year for TfL to demonstrate our ability to "deliver more for less". To succeed, it will be fundamental to continuously review and, as required, revise our control measures, thereby implementing consistent, coherent and competitive processes to refocus our capital business.

5 Risk Assessment rationale

5.1 The probability assessment of the collective risk remains as "medium", reflecting the effectiveness of critical preventative controls. However, the financial impact remains "high" due to spending commitments on programmes and projects in TfL. More detailed information is reflected by Key Performance Indicators (KPI) in all the business scorecards.

6 Consequences, Controls and Actions

6.1 The current funding constraints have compromised TfL's capital delivery: major programmes and projects are at risk of further delay or require significant de-scoping or prolongation.

6.2 The TfL investment portfolio remains vulnerable to various internal and external factors. Most notably, the pandemic and uncertain market conditions creating further funding challenges, impacting TfL's financial position.

6.3 The fluctuating financial situation has placed additional pressure in terms of:

(a) our ability to conduct financial forecasts with lasting accuracy;

(b) our ability to plan effectively which causes increased overheads, uncertainty in securing resources and inability to lock-in long term savings. This uncertainty also requires teams to reallocate and replan resources to align to changing scenarios;

(c) attracting and retaining competent resources is challenging when the resilience of the business is perceived as being eroded, the remuneration packages are seen as less attractive and the market is overheated; and

(d) suppliers are limiting their exposure, in part due to TfL's financial standing, and also in response to global market dynamics.

6.4 Existing controls from ER8 include:

(a) the Project Management Office (PMO), which is an independent support function working collaboratively with the delivery teams to implement consistent, transparent and efficient controls processes across TfL's projects and programmes. The PMO also provides first line assurance;

(b) establishment of the Capital Improvement Group (CIG), which meets periodically to review short, medium and long-term organisational capital improvement activities. The output is captured in the Capital Efficiencies Plan (CEP);

(c) the CEP establishes targets and tracks the efficiency of all capital delivery projects and programmes including initiatives to help us deliver outcomes for less money;

(d) project, programme and portfolio reviews are in place to monitor progress and escalate critical issues to CIG;

(e) the Financial Commitment Oversight Group provides an additional level of control and governance by considering all matters exceeding a set threshold to manage cashflow; and

(f) a Controlled Projects List (CPL) tracks budgets against the approved TfL Investment Programme baseline. The CPL is the central point of truth for business-level reporting.

6.5 Live and ongoing mitigations include:

(a) cost efficiencies initiatives:

(i) “Pounds in the Ground” – introduction of a smarter approach in considering what needs to be done and how we are deploying resources;

(ii) “How Good can it get” – beyond the traditional risk management approach our delivery teams have explored what happens if ‘everything went their way’ and what that would mean to the business and when we would know. A view is then taken from what could reasonably happen (mitigated risks and realised opportunities); and

(iii) risk management activities to ensure reserve allocations are adequately assessed and released in line with the appropriate appetite; and

(b) additionally, the newly appointed PMO Director and his Senior Management Team are assessing opportunities to simplify further and streamline the reporting functions, thereby optimising the deployment of available resources and enhancing the effectiveness of decision-making and governance procedures.

List of appendices to this report:

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

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