Programmes and Investment Committee

Date: **19 July 2023**

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 Committee oversees the "Delivery of TfL key investment programmes" (ER8).

1.2 This paper provides an update on how TfL manages the risk across 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 on Part 2 of the agenda.

3 Background

3.1 A comprehensive review of ER8 last year introduced new controls and mitigations resulting from the January 2021 Financial Sustainability Plan, 2023 Business Plan and subsequent movement away from the November 2021 managed decline scenario for budgeting, which restricted expenditure to committed enhancements and only the most essential renewal projects.

3.2 While funding arrangements have been agreed with government up to the end of 2023/24 there remains the challenges to secure capital funding for the delivery of TfL projects and programmes beyond this term. This compromises effective internal decision-making, the ability to prioritise programmes and projects with certainty and make longer term commitments.

3.3 Geopolitical issues and subsequent market volatility continue to make impacts of high inflation challenging and compound global supply chain concerns. Both Finance and the Procurement and Commercial departments continue to identify, track and manage these risks proactively.

4 Overall Control Effectiveness Rating

4.1 Although robust controls remain in force and a number of the embedded mitigations have been effective, a conservative assessment has been made when assessing the rating of this risk, recognising the factors outlined in section 3. This has led to the Enterprise Risk rating remaining at "requires improvement" while new controls and mitigations are tested for their effectiveness.

4.2 New and existing controls and mitigations will be tracked and assessed by senior management for their effectiveness on a quarterly basis.

4.3 There will be considerable pressure in the coming years for TfL to demonstrate our ability to "deliver more for less". To succeed, it will be fundamental to continuously act as an intelligent client while we 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 current probability assessment of the collective risk remains as "medium", reflecting the effectiveness of critical preventative controls. However, the financial impact remains "very high" due to spending commitments on projects and programmes in TfL. More detailed information is reflected by key performance indicators 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 and if a longer-term funding settlement is not secured there is a risk of significant de-scoping or prolongation.

6.2 While improvements have been seen through control measures, the TfL investment portfolio remains vulnerable to various internal and external factors. Most notably, uncertain market conditions creating further funding challenges, impacting TfL's financial position.

6.3 The uncertain long-term financial situation has placed additional pressure on capital projects in terms of:

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

(b) our ability to plan effectively for the longer term which causes increased overheads, and inability to lock-in long term savings; and

(c) attracting and retaining competent resources within an overheated market.

6.4 Newly embedded controls and mitigations for ER8 include:

(a) establishment of the Capital Strategy Delivery Group, which meets periodically to provide the Directors accountable across the project lifecycle the necessary direction and oversight on strategic priorities across the capital investment landscape;

(b) Consultancy Delivery Partner contract let via the Project and Programme Management Framework through which we can procure Project Management, Construction Management and Project Management Office (PMO) services and resource. This enables; fast access to consultancy resource, secures the best rates available for services and resources, saves time by eliminating the need for multiple mini-competitions and receiving value-add from our delivery partners;

(c) streamlined governance processes through the removal of the temporary Financial Commitment Oversight Group. Investment Group thresholds have been increased to empower Directors and delegated local leads to take project decisions below the new thresholds. In addition, transparency will be increased across the value chain through representatives from Delivery, Operations, Customer and Strategy and Finance functions being sighted on key project decisions being made by Directors at local review groups;

(d) a review of the programme structure within the remit of the Committee has been completed. Changes proposed from this review seek to simplify and reduce the number of programmes under the Committee and better reflect TfL's new operating model. Going forward these changes are expected to deliver more efficient governance, enhance investment prioritisation, and support improved assessment of initiatives against strategic outcomes; and

(e) the establishment of a Project Management Community has commenced. This aims to bring together project management activity from Operations and Capital to enable agile resourcing, upskilling through additional accreditation, greater application of lessons learnt across all of our programmes and enhanced collaboration via a project management network.

6.5 Key existing controls for ER8 include:

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

(c) as part of the Our TfL Programme (OTP), Pathway has been identified as a key element to embed the resulting changes to ensure new ways of working are captured and available for use by delivery teams. We are continually revalidating Pathway Product templates to ensure that regulatory, business and best practice requirements are kept up to date, which also ensures that delivery teams don't waste effort on producing documents and information that are longer required or miss providing content for current requirements;

(d) continuation of second and third line assurance activities at project and programme level. The Independent Investment Programme Advisory Group is currently reviewing the Pathway Gate process and are expecting to provide their findings early autumn. The Pathway Gates process seeks to ensure that projects are fit for purpose to move through the lifecycle; and

(e) project, programme and portfolio reviews to monitor progress and escalate critical risks and issues.

6.6 Cost saving mitigations include:

(a) OTP being a dual-purpose pan-TfL change programme. It is being lead through four programmes and is responsible for enabling the delivery of an operating model which is integrated, innovative, technology-led, value driven and supports the achievement of recurring savings which can contribute to TfL's Financial Sustainability Plan;

(b) reviewing short, medium and long-term organisational capital improvement activities. Establishing targets and tracking the efficiency of all capital delivery projects and programmes including initiatives to help us deliver outcomes for less money;

(c) development of the PMO automated reporting tool. This seeks to provide decision makers across the business with diagnostic controls information for every project within the CPL. This will be built on high quality business data from source, presented in a way that will allow decision makers to assess the health of projects against schedule, cost, risk and quality by providing a holistic view. The tool will start to pivot away from retrospective reporting to providing forward looking insights that will help keep our delivery objectives on track by facilitating timely management interventions. This will assist with preventing risks from becoming issues, understanding delivery performance trajectories and reviewing fully transparent financial and commercial information to contribute towards managing our costs;

(d) a Risk Improvement Programme will enhance TfL's approach to risk and opportunity management across the investment programme. More than 45 initiatives are planned which will promote enhanced risk supported decision making, increase the maturity of time and cost risk assessments and provide stronger assurance and transparency of risks across the project lifecycle; and

(e) Procurement and Commercial function controls being investigated and prepared include; improving and standardising our approach to capital procurement, redefining and optimising the way we estimate costs and utilise TfL's data and improving and standardising our approach to managing our suppliers and contracts.

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.

Contact Officer: Stuart Harvey, Chief Capital Officer
Email: StuartHarvey@tfl.gov.uk