

Subject: Transformation Governance, Assurance & Reporting

Agenda item: Public item 12

Report No: 9

Meeting date: 27 September 2012

Report to: Board

Report of: Colin Naish, Executive Director of Infrastructure

FOR DECISION

This report will be considered in public

1. SUMMARY

- 1.1. This paper sets out the Governance, Assurance and Reporting procedures that are in place for the LLDC's programme of Transformation works. It notes the recommended actions arising from an External Assurance Review on Transformation Delivery Confidence undertaken in August 2012 by members of TfL's Independent Investment Programme Advisory Board and recommends to the Board that they are retained by LLDC for the purpose of providing ongoing External Assurance to the Board on a quarterly basis on the delivery of the LLDC's programme of Transformation works. Investment Committee recommends to the Board that members receive the Transformation dashboard style Monthly Programme Report in order that the Board can fully discharge its fiduciary duties.

2. RECOMMENDATIONS

- 2.1 The Board members are invited to:
- 2.2 **NOTE** the Governance, Assurance and Reporting procedures that are in place for LLDC's programme of Transformation works.
- 2.3 **NOTE** the principal findings of an External Assurance Review on Transformation Delivery Confidence undertaken in August 2012 by members of TfL's Independent Investment Programme Advisory Board.
- 2.4 **APPROVE** that members of TfL's Independent Investment Programme Advisory Board are retained by LLDC for the purpose of providing ongoing External Assurance to the Board on a quarterly basis on the delivery of the LLDC's programme of Transformation works.
- 2.5 **APPROVE** that members receive the dashboard style Monthly Programme Report, formatted to provide a focus on programme/project delivery costs and milestones over the life of the project, in order that the Board can fully discharge its fiduciary duties.

3. TIMING

- 3.1. Timing is pressing in order that the need for on-going External Assurance and extent of Board level reporting on the programme of Transformation works can be agreed prior to the start of works on site.

4. BACKGROUND

- 4.1. The London Legacy Development Corporation (LLDC) has established an internal delivery team to provide an Intelligent Client function to lead and direct the programme of Transformation Works. It is led by the Executive Director of Infrastructure and acts as the Employer under the Consultant Design and Tier 1 Construction Contracts, drives programme delivery and construction Health and Safety, integrates the design of new LLDC transformation works within the baseline works, manages Transformation related planning applications and discharge of planning conditions and undertakes commercial and technical assurance. Finance, approval of change, procurement leadership and construction legal advice are also key components of an Intelligent Client function, but in the interests of good governance, reside outside of the Infrastructure directorate.
- 4.2. The LLDC Project Sponsors act as the Client representative on any part of the project life cycle and are responsible for providing the key link between project ownership and delivery. They are responsible for specific delegated functional areas of the programme or projects and lead delivery of their respective areas so as to achieve favourable outcomes in respect of outputs, time, cost, specification and operational standards. As Transformation cuts across various LLDC functional areas, this entails working collaboratively with internal colleagues and diverse external stakeholders towards LLDC achieving its objectives. In order to achieve this, Project Steering Groups are formed and chaired by the Project Sponsor.
- 4.3. An external Project and Cost Manager has been appointed to operate as a Project Management Partner (PMP) to manage the 'hands on' delivery of the Transformation Works. The activities of the PMP are directed by the LLDC's Executive Director of Infrastructure and his team.
- 4.4. The appointment of Mace as the PMP is a key strand in the LLDC's approach to the delivery of the Legacy Transformation Works. Mace are co-located with the LLDC's transformation team in LLDC's office. Mace are the named Project Manager in the NEC form of construction contracts utilised to appoint the Tier 1 contractors by LLDC. The scope of the PMP is to provide a full suite of project and cost management services, including:
 - Planning and delivery control;
 - Contract management;
 - Risk and issue management;
 - Design management and change control;
 - Construction oversight and co-ordination;
 - Asset take-over and close-out;
 - Document control and archiving;
 - Health, safety and environmental management; and
 - Support LLDC in procurement, stakeholder engagement and communication strategy.
- 4.5. The LLDC ensures that the PMP operates in accordance with the LLDC policies, procedures and standards and delivers to time and budget. The PMP's primary focus is the programme management, project management and contract management of the delivery of the Transformation Works.
- 4.6. LLDC's Transformation programme currently comprises five capital projects, the overarching Project Management Partner service, and a number of Park-wide

services, some of which relate directly to the capital projects (eg external technical review services) and some of which must be continued and concluded in order to discharge Planning Conditions and satisfy Section 106 agreements, meet the requirements and associated costs of statutory bodies and undertakers and enable the removal of temporary, Games-time infrastructure and assets by utility concessionaires.

4.7. The capital projects are:

- Transformation of the North and South Park and its Games-time venues, now coalesced into a single 'All Park' contract with BAM Nuttall as Tier 1;
- Transformation of the Olympic Stadium;
- Transformation of the Aquatics Centre;
- Design and construction of a visitor centre and adjacent play area and landscape in the North Park; and
- Design and construction of a visitor centre and adjacent landscaped plaza in the South Park.

5. GOVERNANCE

5.1. Supporting the Executive Management Board is a series of boards to oversee the day-to-day operations of the Transformation programme; these boards and their functions are set out below:

- **Transformation Board** - The Transformation Board is established to monitor the Transformation works. It reports into the EMB and is chaired by the LLDC Executive Director of Infrastructure.

Transformation Board membership is comprised of:

- LLDC Executive Director of Finance and Corporate Services
- LLDC Executive Director of Infrastructure (Chair)
- LLDC Executive Director of Real Estate
- LLDC Executive Director of Park Operations and Venues
- LLDC Director of Design Integration
- LVRPA Representative
- Olympic Delivery Authority (ODA) Representatives
- LLDC Project Sponsors

With the following in attendance:

- PMP Project Director

Key responsibilities being to:

- Assure the alignment of transformation scope, schedule and budget;
 - Monitor the progress of Transformation programme;
 - Oversee further design development of the Transformation Masterplan and the post Games scope;
 - Agree changes to the ODA / LLDC scope baseline in principle and recommend changes to the ODA and/or LLDC Change Board where required;
 - Anticipate areas of potential future concern so that mitigating actions can be agreed and implemented; and
 - Act as the Client Review Body for Design Stage (RIBA stage) approvals where required, along with Priority Theme leaders.
- **Change Board** - The Change Board is responsible for the change approvals process across the Development Corporation. It reports into the EMB and is chaired by the LLDC Executive Director of Finance and Corporate Services.

Change Board membership is comprised of:

- LLDC Chief Executive
- LLDC Executive Director of Finance and Corporate Services (Chair)
- LLDC Executive Director of Infrastructure
- LLDC Executive Director of Real Estate
- LLDC Executive Director of Park Operations and Venues
- LLDC General Counsel
- LLDC Chief of Design

With the following in attendance:

- LLDC Project Sponsors
- PMP Project Director
- PMP Change Lead

Key responsibilities include:

- Reviewing, understanding and agreeing prospective and proposed changes to time, cost, schedule and scope to the programme;
- Reviewing implications to budget and schedule;
- Managing risk associated with changes;
- Ratifying / making decisions on major project and programme changes;
- Reviewing change trends; and
- Ratifying the exercise of the PMP's limited delegated authority to commit to changes.

Change Board operates under LLDC's current scheme of delegations. The Executive Director of Finance and Corporate Services and the Executive Director of Infrastructure are authorised to approve changes up to a value of £3m, the Chief Executive is authorised to approve changes up to a value of £10m. Changes in excess of £10m are subject to Board approval before being taken through Change Board and into the Transformation programme for delivery. A summary of all Change is provided to Audit Committee on a monthly basis.

All new scope proposed for delivery by Transformation is subject to the approval of an Outline Business Case and Full Business Case, approved by the Chief Executive up to a value of £10m and by the Board where the value is in excess of £10m.

- 5.2. There are two types of Client meeting to support Project level governance, depending on the stage of the projects:
- **Project Board** (Pre-contract award) - The Project Boards support the Senior Responsible Owner (SROs) in driving the successful delivery of the projects according to agreed scope, cost, and time and priority theme commitments. They exist until either contract is reached, or Stage D design is complete after which they are superseded by the Project Implementation Reviews.

Project Board membership is comprised of:

- LLDC Project Sponsor (Chair)
- LLDC Executive Director of Infrastructure
- LLDC Executive Director of Park Operations and Venues
- LLDC Director of Design Integration
- LLDC Chief of Design

With the following in attendance:

- PMP Project Manager

Key responsibilities being to:

- Assure the alignment of transformation scope, schedule and budget
 - Monitor the progress of Project programme
 - Agree changes to LLDC scope baseline in principle and recommend changes to LLDC Change Board where required
 - Anticipate areas of potential future concern so that mitigating actions can be agreed and implemented
- **Project Steering Group** (Pre-contract award) - The Steering Group comprises representatives of the various components of the individual project who provide guidance and expert advice to the Sponsor throughout the design development phase. Steering Groups exist until either contract is reached, or Stage D design review is complete after which certain members may be retained for ad-hoc expert advice through the construction phase.

Steering Group membership is comprised of:

- LLDC Project Sponsor (Chair)
- LLDC Executive Director of Park Operations and Venues
- LLDC internal specialisms as required eg Events, Operations, Design, Security etc
- External specialists as required

With the following in attendance:

- PMP Project Director
- PMP Project Manager

Key responsibilities being to:

- Act as End User Client for the Project
- Provide clear direction to the Project Sponsor on Client Requirements
- Provide input on Client Requirements into the drafting of the Project Brief
- Signs of the Project Brief as meeting the Client Requirements
- Participation in the selection of the Design Team
- Participates in the Client Review of the Stage C and Stage D design proposals
- Signs off RIBA Stage C and D reports as meeting the requirements of the Brief

6. INTERNAL ASSURANCE

- 6.1. Internal Assurance is structured to provide confidence both in delivery and in the information that is reported.
- 6.2. Much of the Transformation delivery assurance activity is undertaken jointly by LLDC's Transformation Team and the PMP and some of this with LLDC staff from other Directorates. Assurance in relation to the PMP contract and its performance by Mace is undertaken by LLDC's Transformation Team alone and involves regular audits of PMP invoices and the requisite supporting information.
- 6.3. The following principles apply to the assurance framework and the way in which LLDC's Transformation Team and other staff, and the PMP will work together within it:

- The assurance framework will serve to provide evidence to external stakeholders of co-ordinated internal assurance, with the aim of minimising the need for/burden of external review and audit;
 - Assurance is in the spirit of 'challenge and support', with the Transformation Team/LLDC and the PMP working pro-actively to tackle and resolve any problems, obstacles or shortcomings identified;
 - Routine assurance activity will be undertaken by the Transformation Team, other LLDC staff and the PMP, often jointly;
 - Routine assurance and review activity will be supplemented by regular 'deep-dive' reviews;
 - Priorities for assurance activity will be agreed jointly by the Transformation Team/LLDC and the PMP; and
 - Programme and cost management and assurance in all the Transformation contracts are continuous, throughout, by the PMP.
- 6.4. Throughout the design and construction phase, monthly Project Implementation Reviews and a rolling programme of Quarterly Deep Dive Reviews are held for each Project in the Transformation Programme.
- **Project Implementation Review** - A monthly Project Implementation Review is held for each project. It is chaired by the PMP Director. The Project Implementation Review will have internal LLDC/PMP attendees only, not the contractor. The PMP Project Manager presents the PSR to the PMP Project Director, the Executive Directors of Infrastructure and Finance & Corporate Services, along with the Project Sponsors and the Programme Assurance Manager. External Stakeholders will continue to be briefed via External Stakeholder meetings. The Project Implementation Reviews identify necessary Programme level actions, common threads or trends and is a forum where Programme level interventions can be agreed. The Project Implementation Reviews are structured to drive the successful delivery of the projects according to agreed scope, cost, time and priority theme commitments and escalating issues as appropriate.
 - **Project 'deep-dive' Reviews** - A rolling programme of in-depth project reviews where each project is the subject of such a review once every three months. These 'deep-dive' reviews allow LLDC to look in detail at the performance of the PMP in managing and driving each Transformation project. The PMP Project Manager presents the Deep Dive report to the PMP Project Director, the Executive Directors of Infrastructure and Finance & Corporate Services, along with the Project Sponsors and the Programme Assurance Manager. The Deep Dive Reviews identify all items of unlet scope within that Project, whether it is still required to be let and if so, the action plan for doing so, plus a review of the adequacy of the Current Baseline Budget when compared with the Anticipated Final Cost and consideration of whether the Project can release contingency to Programme level. Programme level actions, common threads or trends and is a forum where Programme level interventions can be agreed.
- 6.5. Throughout the design phases of each project, Client Design Reviews and Technical Reviews are undertaken across the Transformation Programme
- **Client Design Review** - Assurance of designs in development takes place, mainly, during Client-side review of the formal design submissions at the end of RIBA Workstages C, D and – possibly, but exceptionally – E. Assurance activity in this phase is undertaken on behalf of a Lead Reviewer from each of LLDC's functional Directorates by subject-matter specialists reporting to that Lead Reviewer. The Lead Reviewers' filtered comment spreadsheets are collated and the comments forwarded to the design team for response and, if action is required, a decision from the Project Sponsor on what that action is and when it is to be taken. Once all 'key' comments have been reviewed and

the response identified, sign off will be by the Project Sponsor and the accountable Functional Heads (Executive Directors or their delegates).

- **Technical Review** - In addition to internal Client review of the design of works for delivery within the scope of Transformation, LLDC has access to specialist technical designers – principally architects, structural engineers and building services engineers – who can be instructed to review, comment and opine on the technical adequacy or correctness – or otherwise - of the designs at any stage, to minimise the risk of failure: structural failure; failure to secure requisite external approvals, licensing or accreditation; failure to deliver to budget or programme. The Technical Review process will be run and managed in a similar manner to the way in which the Client review process is run, with the Project Sponsor as the ultimate arbiter and signatory.

6.6. Assurance of the Tier 1 Contractors and their designers will be undertaken by the PMP. Data and reports demonstrating performance against Contract requirements will be submitted to the PMP by the Tier 1s and will include relevant information from their supply chain. The PMP will undertake periodic reviews/site inspections/audits, the frequency and timing of which will depend on the complexity, value and risk associated with a contract. The PMP's assurance framework has been developed on a risk basis focussing on:

- Contractors' deliverables;
- The management of EWNs and CENs;
- Ensuring correct costs / payments;
- Achieving robust Contract AFCs; and
- Prevention of fraud

6.7. Throughout the duration of the Transformation Programme periodic contract assurance reviews will be conducted by the LLDC Programme Assurance Manager on the PMP to determine the degree of compliance with the agreed LLDC and PMP processes. The reviews will examine the consistency of process application on a particular project with documented evidence to support compliance.

7. EXTERNAL TRANSFORMATION DELIVERY CONFIDENCE ASSURANCE

7.1. At LLDC's request, members of TfL's Independent Investment Programme Advisory Group (IIPAG) undertook an independent external review of the Transformation Project. Project team members and stakeholders, encompassing LLDC, GOE, ODA, LOCOG, LVRPA, PMP and Tier 1 Contractors, were interviewed by three members of IIPAG over a three day review period in mid-August 2012 and a report produced, see Appendix 1. The resulting actions as recommended by IIPAG are as follows:-

- The Transformation team should attempt to assess the most likely condition of the assets to be handed back before the planned Handback meeting on 6th September by undertaking selective site surveys.
- Although it has proven difficult at this time, the Transformation team should endeavour to build a closer relationship with LOCOG to overcome the lack of shared information. This is likely to be more successful if it is encouraged by both parties in high-level dialogue.
- Further changes in scope are minimised.
- Potential changes to the Westfield Stratford City prime access road and the Security measures in the Park are agreed, postponed to retrofit or rejected as soon as possible.
- There is a joint meeting planned for the 6th September, coordinated by the GOE regarding Handback and it is strongly recommended that the outcome should be an integrated programme for all to share.

- 7.2. IIPAG noted the need for closer working relationships at the Executive level; this is recognised at the highest level in LLDC. It is being addressed by the Chair and the Interim CEO. A current review by the Interim CEO will result in structural and cultural change. An organisational Learning and Development programme will include team building and management development training.
- 7.3. It is proposed that members of IIPAG are appointed by LLDC to provide ongoing independent and objective view to the Investment Committee and to the Board on Transformation delivery confidence throughout the remaining Transformation programme duration. Project and programme level reviews will be undertaken to provide assurance as to their effective management and provide an independent view on Transformation delivery confidence on a quarterly basis. The proposed Terms of Reference for this External Assurance are attached as Appendix 2.

8. REPORTING

- 8.1. The month-end Tier 1 contractor progress reporting and invoicing, combined with LLDC month-end corporate reporting requirements set the overall monthly timetable for Transformation performance monitoring, reporting and change control; consequently Transformation Project Controls operate a complimentary set of processes to input into these requirements. This generates a monthly cadence that is concerned with establishing a series of repeatable and cyclic review processes and information flows. The key activities and reporting outputs in this flow are as follows:
- Tier 1 contractors' monthly progress reports issued and review meetings held, chaired by the appointed PMP Project Manager. This meeting considers contract progress, cost and risk and is attended by the appropriate members of the LLDC Client team.
 - Project and Programme Risk Register reviews and P80 Quantified Risk Analysis undertaken, Risk Report issued.
 - Trend reviews held, identifying acknowledged, unsubstantiated and out of scope cost trends, Trend Report issued.
 - Draft PSR's and a Programme Cost Summary are presented at the Implementation Reviews following which the PSR's are finalised and issued.
 - A consolidated Monthly Programme Report, informed by the PSR's and Implementation Reviews, is issued.
 - Change Request Forms are prepared and submitted to Change Board for approval of any change to baseline scope, cost or programme. A summary of all Change is provided to Audit Committee on a monthly basis.
 - Project Deep Dive report issued and review held.
- 8.2. Performance Monitoring refers to the measurement of progress (Status Reporting) and the analysis of variances (Variance Analysis).
- **Status Reporting** - Contractors report their schedule progress in terms of physical per cent complete and actual costs accrued monthly in accordance with the requirements of their contracts. This is verified by the PMP with any inconsistencies identified and resolved. The performance data is used to analyse performance, update estimates, prepare forecasts, report progress and status, identify variances and as a basis for developing corrective actions.
 - **Analysis of Variances** - Variance analysis is carried out monthly. This analysis is input into the Project Status Reports which are the main source of information at the Implementation Review Meetings.
- 8.3. Earned Value is a key performance indicator for measuring the ongoing programme performance. Earned Value calculations integrate scope, cost and schedule into performance measures that are used to evaluate progress against the baseline. In addition to Earned Value metrics, Qualitative Assessment (i.e. Project Manager Commentary on progress and critical issues), Milestone

Analysis, Cost Performance Reporting, tracking of Construction Quantities and Priority Theme Reporting are used to provide an overall assessment of project status. Where these techniques identify variances between actual and planned performance, corrective actions are developed.

8.4. The Transformation monthly Assurance and Reporting process is illustrated in Figure 1 below:

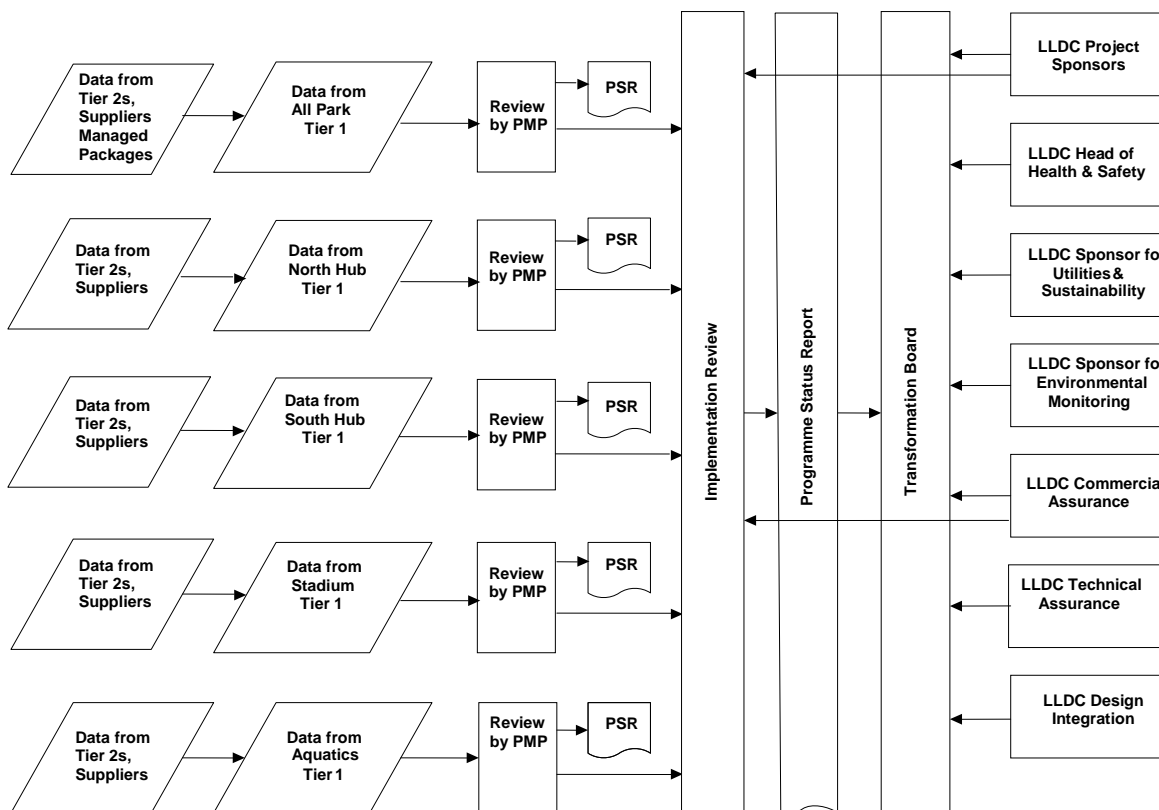


Figure 1 - Tier 1 Reporting and Assurance Framework

8.5. In order that the Board can fully discharge its fiduciary duties, it is proposed that the following monthly reporting is made available to members:

- **PSR's** - a monthly 'snapshot' and is the document into which all salient matters relating to the given Project in the reporting period are gathered. The findings/output of assurance activity will be notified in a PSR if they have identified a significant risk or an obstacle that needs overcoming.
- **Monthly Programme Report** - a programme-wide reporting tool that covers progress, commercials, risks, issues, decision required, trends, etc. The Monthly Programme Report is issued to members of EMT and is presented at Transformation Board where the decisions required are reviewed and, where possible, are made. The Monthly Programme Report is also issued to the LLDC's Programme Management Office for corporate reporting to EMB. Its format is under review to ensure consistency and continuity between LLDC reporting and to provide a focus on programme/project delivery costs and milestones over the life of the project.

9. FINANCIAL IMPLICATIONS

9.1. Funding for the baseline ODA Transformation scheme was provided from the PSF package as detailed in the Transformation Agreement and Full Business Case approved by OPRG. Funding for LLDC works being delivered in parallel

with Transformation is funded by LLDC CSR funds and incorporated into the baseline scope through Change Board approval. Within this funding a budget allowance of £60,000 per annum will be allocated for External Assurance Reviews.

10. LEGAL IMPLICATIONS

The terms of the appointment of the PMP are governed by a contract dated 28 September 2011.

The terms of engagement of the members of the External Assurance Review team are currently with the team members for approval and execution.

11. PRIORITY THEMES

- 11.1. The LLDC is continuing the priority themes set by its predecessor the Olympic Park Legacy Company. These are: Promoting convergence and community participation; Championing equalities and inclusion; Ensuring high quality design; Ensuring environmental sustainability.
- 11.2. LLDC Priority Themes are embedded in the Project Brief and design for all LLDC funded works being delivered by Transformation. Where LLDC Priority Theme requirements are in excess of those embedded in the ODA Baseline Transformation scope, the requirements have been uplifted to meet LLDC requirements through Change Board approval.

12. APPENDICES

Appendix 1 - External Assurance Report by members of IIPAG (exempt information – paragraph 3 of schedule 12A)

Appendix 2 - Proposed Terms of Reference for External Assurance

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Independent External Advisory Group Terms of Reference

Purpose

The London Legacy Development Corporation’s Independent External Advisory Group (IEAG) will provide independent assurance and expert advice to the Board of the London Legacy Development Corporation (LLDC) concerning delivery confidence of the Legacy Transformation programme of works to budget and programme.

Membership

Up to three members; a Chairman and two reviewers.

Frequency of Assurance Reviews

The IEAG will undertake Assurance Reviews on a quarterly basis and are to be undertaken over a maximum of a three day period.

The IEAG Chairman may be requested to attend relevant meetings of the LLDC Board.

Areas of Examination

In order to make an assessment of delivery confidence, the following areas should be examined:

Area	Assurance Scope and Purpose
1. Cost Management	<p>Review Current Baseline Budget and the build-up of the Anticipated Final Cost</p> <p>To determine whether the project is within budget.</p>
2. Risk Management	<p>Review Project and Programme Risk Assessment and its quantification.</p> <p>To determine whether the remaining project and programme contingency is adequate</p>

Area	Assurance Scope and Purpose
3. Interface Management	Review constraints, assumptions and dependencies. To determine programme integrity.
4. Schedule Management	Review progress against programme and adequacy of remaining programme float. To determine whether the project is on programme.
5. Contract Management	Review the contract management and administration. To determine accuracy of current costs.
6. Reporting	Review project reporting. To determine the integrity of cost and progress data presented to the LLDC.
7. Capability and Structure	Review organisational capability and structure. To determine competence and adequacy of management resource to manage the delivery of the Transformation Works.

Deliverable

The IEAG Chairman shall lead the production of a report setting out the findings of the Assurance Review and any recommendations arising.

The report should be addressed in the first instance to the Chief Executive and produced in a format suitable for review firstly by Investment Committee and then on to Board.