OPEN SESSION - ITEM 7

TRANSPORT FOR LONDON

FINANCE COMMITTEE

SUBJECT: KPMG REVIEW OF THE TfL EFFICIENCY PROGRAMME

MEETING DATE: 24 JANUARY 2008

1. PURPOSE

1.1 This paper provides an update to the Committee on the status of TfL's Efficiency Programme following an audit by KPMG.

2 BACKGROUND

2.1 TfL's efficiency programme was originally established in 2002/03 to deliver more than £1bn (cumulative) over the period 2003/04 - 2009/10. The initial focus of TfL's efficiency programme was on achieving efficiencies in "back-office" functions, but was subsequently extended into operational activities.

2.2 The focus of the TfL efficiencies programme is on delivery of cash savings which can be recycled to increase service delivery.

2.3 During 2006/07, TfL delivered £193m of efficiencies against a target of £170m. Including those recurring efficiencies from previous years, cumulative efficiencies delivered to the end of March 2007 were £576m.

2.4 This achievement is part of the overall efficiency programme which now plans to deliver in excess of £1.3bn of gains between 2003/04 – 2009/10. This exceeds the target TfL has been set as part of the wider Government 'Gershon' efficiencies drive.

2.5 As suggested by the Finance Committee at their meeting on 23 June 2005, an independent audit of TfL's efficiency programme was carried out in 2005. This audit assessed the systems and processes used across TfL's businesses, both within the modes and as part of the Business Procurement Efficiencies Programme to identify, monitor and report cashable efficiency gains in specified areas relating to the 2004/05 financial year.

2.6 There was not an audit for the 2005/06 financial year. KPMG were invited to audit TfL's efficiency programme for the 2006/07 financial year. This work was commissioned directly by TfL Management, and is outside the scope of KPMG's appointed auditor role.

2.7 In summary the conclusions are:

- Systems and processes that TfL has put into place to identify, monitor and measure cashable efficiency gains are operating effectively.
- A number of spot checks were performed, and whilst the purpose of the review was not to validate the overall reported level of savings, individual items were agreed back to supporting documentation and underlying financial systems. KPMG concluded that rigorous processes are in place for challenge savings initiatives and there are appropriate procedures in place for approving claimed savings prior to reporting to the Finance Committee

2.8 In addition to noting areas of good practice within the TfL efficiency programme KPMG have made some specific recommendations to further improve the systems and processes. These, including TfL Management Responses are outlined in the detailed report attached as Appendix 1.

3 RECOMMENDATION

3.1 The Committee is requested to **NOTE** the conclusions of the external audit of the 2006/07 efficiency gains.

KPMG

INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

2006/07 Efficiencies Review

Transport for London

January 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

The contacts at KPMG in connection with this report are:

June Awty
Partner
KPMG LLP (UK)

Tel: 0207 311 1769
Fax: 0207 311 4121
june.awty@kpmg.co.uk

Ross Tudor
Senior Manager
KPMG LLP (UK)

Tel: 020 7311 1542
Fax: 020 7311 4121
ross.tudor@kpmg.co.uk

Marion Follis
Audit Manager
KPMG LLP (UK)

Tel: 0207 311 6387
Fax: 0207 311 4121
marion.follis@kpmg.co.uk

1. Executive Summary

We have assessed the systems and processes used across TfL's businesses to identify, monitor and report cashable efficiency gains in specified areas relating to the 2006/07 financial year. We have noted areas of good practice within your overall efficiency programme and have also raised some recommendations to further improve the systems and processes in operation at TfL.

We have been asked to review the systems and processes used across TfL's businesses to identify, monitor and report cashable efficiency gains in specified areas relating to the 2006/07 financial year. Our overall conclusions are as follows:

- Systems and processes differ between the Procurement Efficiency Programme and efficiencies generated through all other activities. Our review of the Procurement Efficiency Programme has identified a number of areas of good practice, for example, the Benefits Tracking methodology using the 'BPEP Tracker' tool and the formal approach to monitoring of this programme. TfL should consider rolling this methodology out across all of its efficiency initiatives.
- All initiatives are supported by either a Benefits Statement or Business Case setting out the nature of the initiative and the target savings. This could be further formalised for non-procurement efficiency initiatives.
- Risks for new efficiency initiatives within the Procurement Efficiency Programme are addressed and initiatives are only accepted into the forecast if the risk ratings are green or in the amber execution stage and fully validated by the initiative leader and budget holder. This methodology could be formalised across all efficiency initiatives.
- Rigorous processes are in place for challenging savings initiatives and there are appropriate procedures in place for approving claimed savings prior to reporting to the Finance Committee.
- Guidance is available either through the Benefits Tracking Methodology document or through the Business Planning guidance. TfL should consider a review of this guidance to clarify definitions and the roles and responsibilities of the efficiency champions should be formalised, including the attendance of formal training, through which guidance could be refreshed annually. Efficiency champions would be responsible for ensuring this information is cascaded down to the modes and business units.

Our review has indicated that the systems and processes that TfL has put in place to identify, monitor and measure cashable efficiency gains are operating effectively. We have agreed a sample of the savings back to supporting documentation but we have not sought to verify the accuracy of the reported savings.

We have noted areas of good practice and have raised five recommendations to further improve the systems and processes in operation at TfL. These are summarised as follows and included in more detail in Section 6 to this report.

Area of Good Practice	Area for Improvement
✓ use of the BPEP Tracker Tool ✓ capture of initiatives on the Benefits Statement and Financial Statement forms ✓ three stage risk assessment process within the procurement efficiencies programme ✓ formalised BPEP monthly review meetings and reporting ✓ formalised guidance on Benefits Tracking which has been circulated to staff ✓ Programme Management Team which applies a rigorous level of challenge to initiatives identified across mode and activity area ✓ maintenance of a centralised evidence based system supporting the procurement efficiencies programme	• rolling out the Business Procurement Efficiencies Programme (BPEP) methodology across all efficiency initiatives identified across all modes and services areas • consider reviewing the existing efficiency definitions to further clarify the conditions surrounding efficiencies, particularly over non-recurrent contract claim negotiations and the impact of cost reduction compared to cost avoidance schemes on cashable gains • expansion of the BPEP tracker tool to record forecast efficiency savings in order to improve transparency of actual savings against target. • re-emphasising the importance of validating initiatives on the Benefits / Financial Statement forms • Consider formalising the roles and responsibilities of efficiency champions within each mode to ensure the efficiency programme is driven forward, with guidance being cascaded through them down to individuals within the mode.

Further detail of the work performed can be found in Sections 4 and 5.

2. Introduction

Transport for London (TfL) began its Efficiencies Programme in 2003/04 and, in the 2005 business planning and budgeting process, set a revised 2006/07 programme target for efficiency gains of £170m. This target was incorporated into the revised budget, which was approved by the TfL Board in March 2005. Overall, TfL is planning to deliver almost £1.3m billion of efficiency savings between 2003/04 and 2009/10, exceeding the targets assigned as part of the Gershon efficiencies drive.

In common with the Government's framework for efficiency reviews, TfL distinguishes between two categories of efficiency gains:

- **Cashable gains** are those efficiencies that release funds that can be recycled to provide additional or enhanced services; and
- **Non-cashable gains** achieve increased outputs for the same inputs, but do not release funding to provide additional or enhanced services.

The target of £1.3 billion of efficiency savings between 2003/04 and 2009/10 relates to cashable gains only. For 2006/07, actual delivery of cashable efficiency savings amounted to £193m, which was £23m above the target for the year. This has been achieved across the modes and split between recurrent and in-year as follows:

	2006/07 Actual £m	2006/07 Budgeted £m	2006/07 Sustained £m	2006/07 In Year £m
LUL	**24**	25	4	20
Surface	**44**	34	34	10
Rail	**1**	1	-	1
Group Directorates	**124**	110	75	49
Total	**193**	170	113	80

A further breakdown of actual and budgeted outturn by activity is set out below:

Activity	Actual £m	Budget £m
Procurement	**77**	59
Business Improvement Programme / Staff	**24**	26
Marketing	**4**	12
Other	**19**	13
Rail	**1**	1
Bus Contract	**44**	34
Tube Lines Refinancing	**2**	2
LUL Operational Efficiencies	**15**	16
LUL Communications	**7**	7
TOTAL	**193**	170

3. Scope and Methodology

Scope of the Review

In view of the significance of the savings being claimed by TfL's businesses and the key role that the Efficiency Programme is playing in releasing funds for additional and enhanced services, KPMG has been engaged to provide an independent and objective assessment of the adequacy of the systems and processes that the businesses use to report cashable efficiency gains. Our review focuses on a sample of program areas and considers whether:

- Claimed savings for 2006/07 can be reconciled to budget statements and 2006/07 outturn financial information:
- The processes used to identify savings initiatives comply with guidance issued by TfL;
- The processes used to monitor the delivery of planned efficiencies are operating effectively and in accordance with agreed protocols;
- Processes are in place to ensure that data used to claim savings are robust and are subject to internal challenge;
- All significant risks have been identified and the risk strategies adopted to mitigate those risks are being applied; and
- Programme leads are applying rigorous review processes before signing off savings as having been achieved.

This is KPMG's second review of the efficiencies programme, and we focused solely on **cashable** efficiency gains claimed arising in year, accounting for £80m out of the total £193m claimed during 2006/07. We have not been asked to review the identification and reporting of non-cashable gains, or of cashable gains which have been classified as 'sustained' in 2006/07 that have originated in prior years.

It should also be noted that the purpose of the review was not to validate the value of cashable efficiency gains, but to provide assurance that the systems and processes underpinning the efficiencies programme were robust and were operating effectively.

Approach

The review work undertaken comprised interviews with key staff involved in each sampled programme area and members of the Group Efficiencies and Procurement Programme Delivery teams.

Documentation to support the those efficiencies sampled was reviewed to ensure that adequate assurance could be placed on the 2006/07 reported outturn. This included the examination of:

- The accuracy of recorded savings compared to supporting documentation;
- Whether sufficient evidence existed to support the claimed efficiency gains;
- Whether savings had been correctly allocated to 2006/07;
- The reasonableness of any assumptions used;
- Whether the delivery of savings had been monitored; and
- Whether savings had been approved in accordance with agreed procedures.

3. Scope and Methodology (continued)

Sample

The programme areas chosen for review were discussed and agreed with TfL prior to the commencement of the review. The work focused on areas where significant efficiency savings had been reported in 2006/07. The areas selected were:

Area	Reported Cashable Savings £m	Value Sampled £m	Number of Initiatives Sampled
Procurement	31	13	4
Business Improvement Programme / Staff	2	2	1
Marketing	3	-	-
Other	13	4	1
Rail	1	-	-
Bus Contract	10	10	1
Tube Lines Refinancing	2	-	-
LUL Operational Efficiencies	11	7	1
LUL Communications	7	7	1
Total	**80**	**43**	**9**

The initiatives chosen for review are highlighted in Section 5 of this report. The sample was chosen to provide for the widest possible coverage of new initiatives arising in 2006/07 in order to assess the application of the efficiency guidelines across different areas of the business. The review did not set out to examine any savings resulting from initiatives identified prior to 2006/07.

4. Systems and processes

TfL's efficiency target is set by the DfT however you are planning to exceed this target and deliver £1.3 billion of savings as part of your 2003/04 to 2009/10 efficiency programme. Each year as part of the Business Planning and budgeting process, the annual programme is reviewed and a revised annual target is set which is allocated down to each mode, and further allocated down to the business units.

Our review of TfL's systems and processes over the delivery of its efficiency programme has concluded that overall these are robust, although some improvements could be made. Systems and processes differ between the Procurement Efficiency Programme and efficiencies generated through all other activities. The overall efficiencies programme is overseen by the Group Business Planning and Performance team who we found to provide a robust challenge to proposed initiatives and targets, and have systems in place for the collection and monitoring of data.

Procurement Efficiency Programme

TfL has put in place Benefits Tracking Methodology which has been designed to provide confidence to TfL on the value of its savings from the Procurement Efficiency Programme. This methodology uses the 'BPEP Tracker' tool which captures details from the planning to the realisation of benefits for each individual initiative.

As initiatives are identified, they are captured on a Benefits Statement form and entered into the tracker tool. A three stage risk assessed process is then followed:

STAGE RISK RATING	IDEA	EXECUTION	ACCEPTANCE
RED	× Initiative logged on BPEP tracker tool but not included in forecast	×/ ✓ Initiative logged on BPEP tracker tool but not included in forecast. It there is any possibility the initiative will progress, it may be re-assessed as an Amber risk rating	N/A
AMBER	× / ✓ Initiative logged on BPEP tracker tool but not included in forecast. If the initiative is to be progressed, it will enter the execution stage	✓ Efficiency savings included in the forecast	N/A
GREEN	✓ The initiative will be included in the outturn forecast.	✓	✓

The Benefits Statement forms a business case which is continually updated throughout the lifecycle of the initiative. For those initiatives which enter the execution and acceptance stage, there is then a requirement to complete a Financial Statement which sets out the base information on the initiative and the associated savings. All proposed and actual savings delivered are required to be validated by the Initiative Leader, Head of Procurement, Budget Holder and Financial Controller.

Each savings initiative which is executed will be given a unique number, and once the initiative idea has been accepted, the expected savings will be captured on the BPEP Tracker tool. Both the Benefits Statement and the Financial Statement are held centrally by the Programme Management Office.

Each period, there is a BPEP review meeting with the Group Business Planning and Performance team, which includes the Procurement Programme Management Team, Head of Procurement and cross modal leads. The Procurement Programme Management Team prepare a report for these meetings setting out total initiatives accepted and in execution and the gap remaining to be identified to achieve target. The original efficiency target and accepted cashable savings are also set out for each mode and progress against overall targets and individual initiatives are discussed.

TfL takes a prudent approach and only includes an initiative in its forecast if it is green risk rated or in the amber execution stage. Actual efficiency gains are only recognised once they have been accepted and signed off. Whilst we are satisfied with the design of this control, we recommend that TfL continue to reinforce this message across the modes to ensure that the forecast and actual cashable savings delivered which are reported represent an accurate position.

4. Systems and processes (continued)

The BPEP tracker tool identifies whether efficiencies are:

- Cashable / Non Cashable
- New / Managed (recurrent)
- Operational / Non Operational

Although the BPEP tool records non cashable gains, only cashable gains are included in TfL's reporting of efficiencies against their overall target.

Guidance has been circulated to staff on the benefits tracking methodology, including the definitions of the above, classification of benefits types and guidance on completion of both the Benefits and Financial Statements along with the requirement for validation.

Although we are satisfied there is an adequate process in place for assessing initiatives, including a risk analysis of business cases, and target efficiencies are prudently recorded, it is not clear from the BPEP tracker tool what the actual target is for each initiative compared to the actual outturn. The tracker tool could be further improved to ensure this audit trail is maintained.

Non procurement Efficiency Initiatives

There is no formal tool, such as the BPEP tracker tool, in place for recording non procurement efficiency initiatives. There is overall guidance on the identification and recording of efficiencies, including the classification between cashable / non cashable and cost reduction / cost avoidance. Each initiative is reported to the Group Efficiencies Management team on an individual basis, dependent on the initiative. For example, some initiatives are supported by a full business case detailing the efficiencies such as from a change in operational practice, whereas others may stem from a policy of robust contract negotiation.

Reporting is quarterly and each business unit is asked to complete a proforma return, which is reviewed and challenged by the Group Business Planning and Performance team, prior to inclusion in the overall report to the finance committee. Review meetings are however inconsistent across modes / business units and happen on an as and when required basis. Whilst it is accepted there may be some differences as to the nature of the efficiencies, TfL should consider adopting a similar process to that which is in place for the Procurement Efficiencies Programme. For example, the development of a tracker tool, submission of a formal business case and benefits & financial statement, and more formal monitoring and review procedures, such as periodic or quarterly meetings with the initiative leads, budget holders and the efficiencies team.

Discussion with some officers has also highlighted that there is confusion over the efficiencies programme, for example:

- The belief there are two efficiency programmes;
- A lack of understanding of what target they are contributing towards; and
- A lack of understanding on how efficiencies are accounted for and whether it is an adjustment to the budget line or accounted for against a negative efficiency line. This could result in either double counting of efficiencies or the failure to capture a realised efficiency gain.

TfL should consider formally nominating an Efficiencies 'Champion' for each mode. A formal programme of training could be introduced for champions, who would then be responsible for ensuring group messages and guidance are cascaded down to the appropriate personnel within the modes and business units.

5. Review of Efficiency Gains

This section summarises our findings in relation to the evidence provided to support the initiatives sampled.

Procurement

Four initiatives were examined across the business units as part of the review. These were:

Business Unit	Initiative	New Savings for 2006/07 per BPEP tracker tool £'000s	Agreed to validated Financial Statement
Group Services	Agency Labour	£1,064.0	✓
Streets	Civil Construction & Maintenance	£6,840.0	✗
Cross modal	Information Management	£3,059.4	✓
Contract Services (PPP)	Utilities	£1,783.0	✓
Total		**£12,746.4**	

Information has been provided on how the savings arose and how they were calculated. Contracts and other third party documentation were examined where appropriate to substantiate the savings. Financial Statements were reviewed and validated forms agreed to the BPEP tracker tool. We have set out below a summary of findings for each initiative:

Agency Labour

The agency labour savings sampled were in respect of the speed to pay scheme. TfL operate a self-billing system and where invoices are paid within 10 days of the due date rather than the standard 30 day payment period, a discount is applied. This discount reduces for each day payment is not made after the 10 days. We have observed the database for collecting this information, and have obtained supporting documentation from the system. The total amount which could have been claimed was £1,068k, that is, if every invoice had been paid within 10 days this would have been the saving. However, some invoices were paid later resulting in a reduction to the discount of £9.7k and an overall saving of £1,059k was realised. This is £5k lower than the amount on the BPEP tracker tool and the Financial Statement, although this difference is not significant.

The savings have also been booked as a new initiative for 2006/07. £867k of savings were realised against the speed to pay scheme in 2005/06 as part of the original 3 year scheme which ran from 2003-2006.

*Civil Construction & Maintenance**

The savings booked are in respect of the reduction to claims from three of the Term Maintenance Contractors (TMCs) compared to TfL's commercial claim provision. The initial claims submitted amounted to £xm (net of TfL counter claims). It was considered these claims were inflated or over valued and a provision of £xm was made in the accounts for settlement which was on the basis of external legal advice. Actual settlement agreed with the TMCs was for £xm and a saving of £6.8m was booked.

Whilst we accept this is a saving to TfL, it does not strictly represent an efficiency in TfL's business practices. There may be instances where in fact TfL could pay more than the amount provided for in the accounts and outcomes will rely on the strength of the negotiating teams. On discussion with the Group Business Planning and Performance team, TfL have a policy and agreement for inclusion of such savings within their efficiency programme. We however would recommend that TfL update their guidance and definitions, particularly over the inclusion of savings as a result of contract claim negotiations, and the criteria which must be demonstrated, for example, an external assessment of the commercial provision compared to the actual claim submitted, and the active negotiation which has resulted in a favourable outcome to TfL. It should be made clear that release of unused provisions will not necessarily constitute a cashable efficiency. There are examples where this is the case, for example, the Congestion Charging extension.

** Commercially sensitive information has been removed.*

Civil Construction & Maintenance (continued)

The saving has been recorded as a one-off cashable saving within the BPEP tracker tool but has been recorded as non-cashable within the supporting Financial Statement, as it meets the 'cost avoidance' criteria. Per TfL's definition of non-cashable efficiencies, this includes 'cost avoidance that would have otherwise been incurred'. The Financial Statement has not been fully validated by the Budget Holder or the Financial Controller.

We recommend that all Financial Statement forms should be checked and fully validated before they are submitted to the Procurement Efficiency Team.

Information management

The savings booked are in respect of the Customer Service Integration Programme (CSIP) which was retendered and awarded to the incumbent contractor, xxxx*. The re-tendering exercise was based on a competitive process and resulted in an overall saving of £3.1m. The savings have been allocated across the General Counsel, Group Communications, Commissioner, Finance and Planning, and Group Services business units.

Savings from the BPEP tracker tool have been agreed to a fully validated supporting Financial Statement and savings are indicated as one-off cashable savings. However, under benefit type, the initiative has been classified as both cost reduction and cost avoidance. There is little differentiation between these two benefit types, and as a consequence, there may be confusion over whether the savings should be cashable or non cashable, as cost avoidance schemes fall under the non-cashable definition. We recommend that TfL review its definition over cashable and non-cashable efficiencies and the cost reduction and avoidance benefit types, specifically where there are cost avoidance schemes that release funds that can be recycled and used for another purpose. For example, where a budget has been agreed and TfL have secured actual costs which are below budget, the savings will be cost reduction. Cost avoidance for example, could be where additional scope has resulted in higher costs but where no budget has been agreed, and where TfL have been successful in negotiating the price downwards.

Contract Services (PPP)

The savings are in respect of moving away from block contracts for the procurement of electricity to flexible procurement. Contracts are now awarded on a more flexible basis where less than 10% is purchased on the day of award and the remainder purchased throughout the year when prices are favourable as advised by consultants. A reference price and upper limit is set by TfL on the date of contract award. If the upper limit on the market prices are approaching, TfL will procure the remaining electricity under the contract.

The savings per the BPEP tracker tool are classified as recurrent cashable efficiencies which is consistent with the supporting Financial Statement.

Business Improvement Programme / Staff - £2.0m in year

All of the savings in this area relate to the Phase 1 and 2 Financial Services Centre (FSC) extension amounting to £1.56m or equivalent to 43.3 FTEs. This has been calculated by comparing the actual cost of the FSC (which has been agreed to SAP) to an agreed baseline based on staff and agency costs prior to migration across to the FSC. Actual headcount figures have been agreed to the period 13 Business Monitoring Report (BMR).

A Business Case was prepared for phase 1 which identified a 2 year payback period to recover the costs of implementation. The Phase 2 business plan was prepared building on improvements identified from the first phase. Both business plans were signed off by the Head of the FSC. Business cases have been updated throughout the process.

Savings booked are reported correctly against the TfL efficiency programme.

Other - £13m in year

Out of the £13m savings booked in the year, we reviewed the savings attached to the White City initiative which account for £4.3m of the savings. The savings relate to contract negotiations on the redevelopment of the tube station. From the original bid accepted, TfL were successful in negotiating a £3.5m reduction to the original bid, which was booked in the 2nd quarter of the year. After further discussions in November 2006, TfL successfully negotiated a further £800k from the bid price. Total savings are, therefore, £4.3m.

Savings booked are one-off and relate to in year savings and are therefore reported correctly against the TfL efficiency programme.

** Commercially sensitive information has been removed.*

5. Review of Efficiency Gains (continued)

Bus Contract - £10m in year

All of the £10m in year saving relates to efficiencies made as a result of tendering the five year bus contracts. As this is a continuous process, approximately one fifth of contracts are tendered each year. During the re-tendering process, TfL uses current knowledge of operating conditions to estimate the resource requirements (i.e. buses and drivers) needed to produce services to the level and quality set out in the contract specification. Efficiencies are obtained where these can be reduced as the cycle progresses.

Savings from the contract negotiations are spread across the life of the contract as recurrent cashable savings. These have been reported correctly against the TfL efficiency programme.

LUL Operational Efficiencies - £11m in year

Out of the £11m savings booked in the year, we reviewed £6.6m of this which related to Customer Focused Rostering and Ticket Channel Mix initiatives. This involved the more effective rostering of staff based on an assessment of customer demand at stations and facilitated by the reduced demand for ticket office transactions due to oystercard.

The savings have been calculated using the cost per grade of person at full year 2005/06 costs. Savings are cashable and are recurrent in nature.

LUL Communications - £7m in year

These savings relate to the Traffic Information Management System. This was originally contracted to Metronet to develop, however, on review, TfL made a decision to take the development of the system back in-house. A credit of £6.8m was posted through the period 6 Metronet invoice.

This saving represents a one-off in year cashable saving and has been reported correctly against the TfL efficiency programme.

6. Findings and Conclusions

Summary

The review concludes that across the areas examined, managers apply TfL guidelines on identifying and monitoring efficiencies and maintaining key data. The assessment of risks for new efficiency initiatives is addressed at the outset, although this is more transparent in the Procurement Efficiency Programme.

Information reported through the BPEP tracker tool or from the recording of data from the other efficiency areas was found to be largely accurate, with one initiative not fully agreed back to the financial statement form. From discussion, this was found to be an administration error rather than any inconsistency in applying the cashable / non-cashable definitions.

Identified savings are challenged when submitted into the BPEP tracking tool and through the monthly and quarterly reports submitted to the Group Efficiencies team.

We consider TfL's system for recording and processing efficiencies is operating effectively. We have raised areas where minor improvements could be made, although note that the efficiency programme is continually developing to reflect improvements.

Areas of Good Practice

During our review, we noted areas of good practice. These are summarised below:

	Areas of Good Practice
Procurement Efficiency Programme	✓ use of the BPEP Tracker Tool ✓ capture of initiatives on the Benefits Statement and Financial Statement forms ✓ three stage risk assessment process ✓ formalised BPEP monthly review meetings and reporting ✓ formalised guidance on Benefits Tracking which has been circulated to staff ✓ Programme Management Team
Group Efficiencies Team	✓ maintenance of a centralised evidence based system supporting the procurement efficiencies programme ✓ level of challenge applied to initiatives identified across mode and activity area

Areas for improvement

We have set out overleaf five areas identified for improvement as a result of our review. Most of these relate to best practice and minor improvements to TfL's efficiency programme. There are two however, which would result in significant improvements:

- Rolling out the benefits tracking methodology which is in place for the Procurement Efficiencies Programme across all efficiency initiatives; and
- Review of efficiency definitions within the guidance including more detail on non-recurrent schemes and further clarity on cashable / non-cashable savings and cost reduction / avoidance schemes.

We have also followed up all of the recommendations raised in the 2004/05 review and are satisfied that each of these have either been superseded or implemented.

6. Findings and Conclusions (continued)

Issue & implication	Recommendation	TfL Response
Recognition of initiatives: Delays to signing off on an initiative in its execution stage or when savings are realised may impact on the accuracy of both the actual and forecast efficiency results which are reported to management.	Whilst we are satisfied with the design of these controls, TfL should seek to remind initiative leaders and budget holders the importance of validating initiatives on a timely basis to ensure that the reported forecast and actual cashable savings delivered represent an accurate position.	Agreed. Initiative leaders and budget holders will be reminded through a series of checkpoint meetings.
Recording of target efficiency savings: Although target efficiencies are discussed and validated through the Financial Statement form process, it is not evident from the BPEP tracker tool what the forecast efficiency saving is compared to the actual outturn.	In order to improve the transparency of forecast compared to actual savings, TfL should consider further expanding the fields within the BPEP tracker tool to compare forecast efficiency savings against actual outturn.	TfL will review the BPEP tracker tool and implement changes as appropriate.
Recording and monitoring of non-procurement efficiency savings: TfL have robust recording and monitoring arrangements in place over the Procurement Efficiencies Programme, for example, development of the BPEP tracker tool and formalised BPEP review meetings. These formal arrangements are only in existence however for the Procurement Efficiency Programme, and although monitoring of other area activities is performed, this is on an ad-hoc basis.	TfL should consider formalising its recording and monitoring arrangements of efficiencies in non-procurement activities, for example: • by extending the BPEP tracker tool to cover non-procurement activities; • ensuring each initiative has a benefits and financial statement form which are fully validated; and • setting a formal programme of review meetings across the year to be attended by cross modal leads and the budget holder where required.	Agreed. TfL will seek to formalise arrangement including extending tracking tools and review meetings as appropriate.
Efficiency Champions and Training: Although guidance is in place on the detail of benefits tracking, there is uncertainty amongst staff on the overall programme, for example, the overall targets they are working to and how efficiencies are accounted for.	TfL should consider formalising the roles and responsibilities of Efficiency Champions for each mode. A formal programme of training could be introduced for champions, who would then be responsible for ensuring group messages and guidance are cascaded down to the appropriate personnel within the modes and business units. This could, for example, incorporate: • roll out of BPEP methodology across all efficiencies; • refresh guidance for completion of benefits / financial statement forms and validation of initiatives; • summary of the overall programme of efficiencies and the targets that TfL and individual modes are working towards; • clarification of definitions; and • guidance on accounting for individual targets and actual savings delivered against these.	TfL will take this forward in the context of the forthcoming Operational Cost Review.

6. Findings and Conclusions (continued)

Issue & implication	Recommendation	TfL Response
Definitions: From review of a sample of initiatives and how they have been classified compared to guidance, there were instances where definitions could be clearer. For example, there is no clear guidance on the inclusion of some non-recurrent initiatives, which although may represent a cashable cost saving, do not necessarily represent an efficiency in business practice, for example, the negotiation of contract claims which are provided for. The cost reduction and cost avoidance definitions are also not clear and there may be confusion over cost avoidance initiatives which are included within non-cashable efficiencies, as some cost avoidance efficiencies could result in the release of funds which can be recycled for other purposes.	TfL should consider a review of the existing definitions and further clarifying the distinction on what schemes should be included within cashable savings and the difference between the cost reduction / avoidance benefit types.	This will be taken forward as part of the forthcoming Operational Cost Review.